

Chapter 2. Market Analysis

Table of Contents

List of Exhibits.....	1
Introduction.....	3
I. Shifting Corridor Demographics and Implications for Market Analysis.....	3
II. The Corridor Development Context.....	11
III. Commercial Market Projections.....	27
IV. Summary of Market Analysis.....	39

List of Exhibits

Exhibit 1: 2010 Estimate of Population by Race and Ethnicity, Corridor v. Gaithersburg.....	4
Exhibit 2: Consumer Expenditure Survey, Q3:2011 through Q2:2012.....	5
Exhibit 3: Spending Pattern of Wealthy Consumers in Top 20 Percent of Income Strata.....	5
Exhibit 4: 2011 Median Income (5-year Average Estimate), Corridor v. Gaithersburg.....	6
Exhibit 6a: Commuting Pattern Breakdown by Travel Method, 2011 5-year Average Estimate for Corridor Census Tracts.....	7
Exhibit 6b: Commuting Pattern Breakdown by Travel Method, 2011 5-year Average Estimate for Corridor Census Tracts.....	7
Exhibit 7a: Current Land Use Plan Map by Zoning Type, Game Preserve Road – Montgomery Village (MD 124).....	13
Exhibit 7b: Current Land Use Plan Map by Building Type, Game Preserve Road – Montgomery Village (MD 124).....	14
Exhibit 8a: Current Land Use Plan Map by Zoning Type, Montgomery Village Avenue – Diamond Avenue/CSX Rail.....	15
Exhibit 8b: Current Land Use Plan Map by Building Type, Montgomery Village Avenue – Diamond Avenue/CSX Rail.....	16
Exhibit 9a: Current Land Use Plan Map by Zoning Type, Shady Grove–Deer Park Avenue.....	17
Exhibit 9b: Current Land Use Plan Map by Building Type, Shady Grove–Deer Park Avenue...	18
Exhibit 10. List of Major Tenants in Lakeforest Mall.....	22
Exhibit 11: Locations of Ongoing Projects as Indicated in the 2012 Planning Report.....	24
Exhibit 12: Corridor Commercial Space excluding the Fairgrounds and other Ongoing Projects, Breakdown by Type of Use.....	28
Exhibit 13: Expansion of the Commercial Space in the Corridor and the City of Gaithersburg Expected by 2017.....	30

Exhibit 14. New Residential Units Anticipated by 2017	31
Exhibit 15: Projection of Employed Population and Commercial Space in Montgomery County, 2012, 2020, 2025, 2030.....	32
Exhibit 16: Montgomery County and City of Gaithersburg Population Growth from 2010 to 2030 & Associated Estimated of Permits Granted	33
Exhibit 17: Land Area Available for Future Corridor Residential Development in Square Feet. 33	
Exhibit 18: Projection of Residential Units to be Developed in Corridor’s Vicinity, 2018, 2025, 2030.....	34
Exhibit 19: Projections of Commercial Space Development, 2013, 2017, 2025, 2030	36
Exhibit 20: Breakdown of Corridor Office Space by Type (A, B, & C), in square feet.....	36
Exhibit 21: Historic & Projected Retail Occupancy Rate for Corridor and City.....	37
Exhibit 22: Historical & Projected Office Occupancy Rate for Corridor and City	38

Chapter 2

Market Analysis

Introduction

This market study provides detailed forecasts regarding likely patterns of commercial and residential development in the Corridor and citywide between now and the year 2030. The principal conclusion is that the Corridor is not positioned to attract a proportionate share of private investment going forward due to a set of impactful constraints, including available developable acreage, APFO restrictions, and competition with emerging commercial markets, many of which offer more amenity-rich environments and higher median household incomes.

The future of the Frederick Avenue Corridor will be shaped by innumerable factors, including area demographics, the performance of regional and national economies, changing tastes and preferences, technology, competition for relevant markets, individual business decisions, planning decisions and physical investments and upgrades to be rendered by the private and/or public sectors. This section of the report supplies the study team's market analysis, which considers all of the factors listed above and then some. The goal is to provide stakeholders with a strong sense of how the Corridor's dynamic status quo is likely to play out absent meaningful intervention. The recommendation section that follows provides options that policymakers may want to consider, while the fiscal assessment section thereafter attaches cost estimates to those options.

I. Shifting Corridor Demographics and Implications for Market Analysis

Growing Minority Populations Create Opportunities for Entrepreneurs

The Corridor has changed and the transformation will continue. Among the most noteworthy trends along Gaithersburg's Frederick Avenue Corridor are:

- Rapid population growth;
- Changing commuting patterns;
- Diminished homeownership;
- Increasing diversity; and
- Declining average household wealth and income.

According to the US Census Bureau, in 2010, minorities constituted three-quarters of the Corridor's population. In the balance of Gaithersburg, the minority population was 60 percent. Between 2000 and 2010, the Corridor's African-American population expanded more than 88 percent and the Hispanic population surged nearly 68 percent. This shift in demographics

represents more than just academic curiosity. Even beyond implications for household income, homeownership, and other economic outcomes, the expansion of the area's Hispanic population fundamentally alters local consumption patterns.

Exhibit 1: 2010 Estimate of Population by Race and Ethnicity, Corridor v. Gaithersburg

Race	Corridor*	% Change from 2000	Gaithersburg	% Change from 2000
Total Population	7,621 (100%)	+30.0%	59,933 (100%)	+13.9%
Population, non-Caucasian	5,749 (75.4%)	+63.0%	35,972 (60.0%)	+34.2%
<i>African American</i>	1,810 (23.8%)	+88.1%	9,307 (15.5%)	+24.8%
<i>Hispanic</i>	2,832 (37.2%)	+67.8%	14,499 (24.2%)	+39.4%

Source: Census Bureau, *Data from the consolidation of Census blocks relevant to the study.

As an example, according to the 2012 Mid-year Consumer Expenditure Report produced by the Bureau of Labor Statistics, Hispanics spend relatively less on healthcare, entertainment and education than the overall population. Not surprisingly, they also respond differently to marketing, with a study conducted by Nielsen measuring the level of preference for advertising in Spanish rather than English.¹

Changing demographics are already apparent in the Corridor's retail and service offerings. Much of the Corridor's retail has a decidedly ethnic flavor, with Spanish, Arabic and other languages neatly reflected on many business signs. There is no reason to expect a reversal of this trend. The study team expects minority population will continue to expand while Caucasian population will remain stagnant. This has and will continue to generate significant entrepreneurial opportunities for small businesses, but it is not clear that the retail/commercial space necessary to house those businesses exists since the Corridor is associated with a retail vacancy rate of just 3.9 percent and at least some of that square footage is not perfectly suited for start-up/entrepreneurial purposes. Increased rents attributable to expanding scarcity of relevant, and visible retail space could create an environment associated with rampant business failure as under-capitalized businesses struggle to meet their overhead expenses in an environment characterized by stiff competition, constrained incomes and seasonality.

¹ Nielsen. (2012). *State of the Hispanic Consumer: The Hispanic Market Imperative*. Retrieved on July 5th, 2013, from <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2012-Reports/State-of-the-Hispanic-Consumer.pdf>

Exhibit 2: Consumer Expenditure Survey, Q3:2011 through Q2:2012

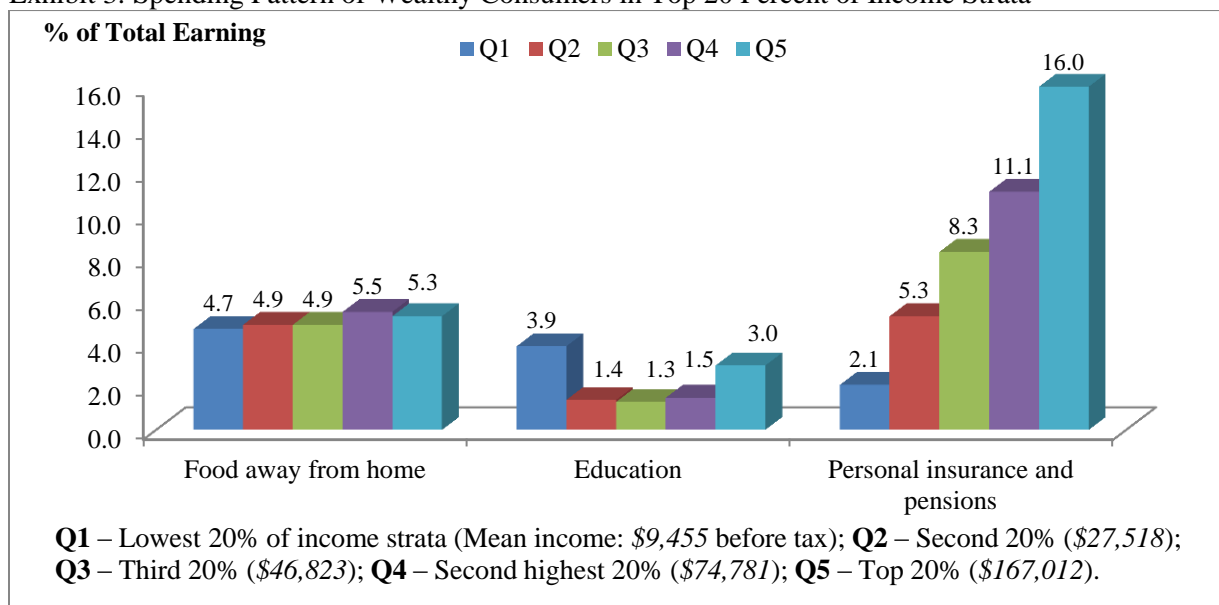
	Hispanic	Non-Hispanic Overall	Non-Hispanic Caucasian & other races	African American (One Race)
Annual Average Income (before tax):	\$48,512	\$67,548	\$70,873	\$47,446
Expenditure Category:	<i>(% Share of Average Annual Earning)</i>			
Health care	4.3	7.1	7.4	5.3
Entertainment	4	5.2	5.3	4.1
Education	1.3	2.3	2.5	1.4

Source: Bureau of Labor Statistics, Consumer Expenditure Survey

Corridor is Increasingly Associated with Lower Incomes

According to the Bureau of Labor Statistics Consumer Expenditure Report in 2011, the top 20 percent of income earners spend a larger portion of their income on entertainment. Consumers in the upper income strata are also found to spend more on food away from home and educational items. The wealthy also allocate larger portions of their income to insurance and savings. As indicated by this report's demographic assessment of the Corridor and its constituent neighborhoods, the tastes and preferences of the wealthy are not as relevant as they once were. The implication is that today's population spends less on financial services and restaurants as a fraction of income than Corridor residents of the past. Exhibit 3 below provides relevant information. The Corridor is heavily populated with households associated with quintiles two and three.

Exhibit 3: Spending Pattern of Wealthy Consumers in Top 20 Percent of Income Strata



Source: Bureau of Labor Statistics, Consumer Expenditure Survey

Median income in the Mid-Town District of the Corridor is roughly two-thirds that of the City of Gaithersburg's. Moreover, income growth in a majority of the Corridor has generally been slower over the past decade (16% versus 35%) than income growth in other parts of the city with the exception of the Southwest District, where median income rose 80 percent between 2000 and 2011.

Exhibit 4: 2011 Median Income (5-year Average Estimate), Corridor v. Gaithersburg

Corridor Districts					Gaithersburg
	Southeast	Mid-town	Southwest	Northern	
Median Household Income	75,850	51,651	89,944	69,986	81,118
<i>% change since 2000 Census</i>	7.3%	12.0%	80.3%	28.5%	35.5%

Source: Census Bureau

This does not imply that retail and service development in the Corridor must be or will be oriented around households with lower incomes. Frederick Avenue is a major thoroughfare stretching from the District of Columbia to Frederick, which attracts both individuals who typically choose to experience Tyson's Corner, Bethesda, White Flint, downtown Frederick or other destinations and individuals who make up the local workforce.

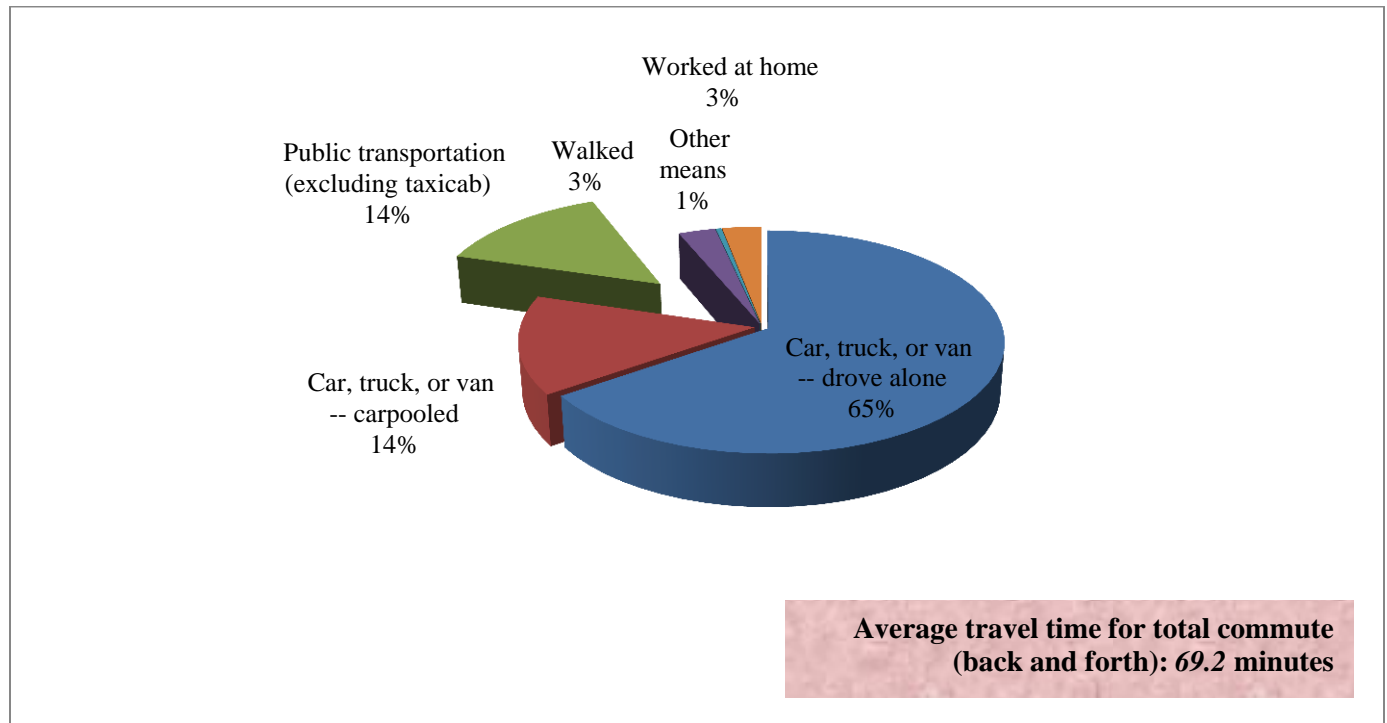
This provides planners with a choice of strategy. One is to leverage the community's shifting demographics and emphasize those items that are of lower prices (implicates firm scale and product quality), ethnically-relevant items and the types of services used intensely by immigrant-intensive populations (e.g., Western Union, visa processing, etc.)

The second option is to attempt to attract higher income households from other communities to the Corridor. The owners of Lakeforest Mall recently announced a plan to upgrade the retail center. There are also potential actions that flow from the Fairgrounds and other parts of the Corridor.

Current Commuting Patterns Constrain Density

Relative to many other communities in Montgomery County and the balance of the Washington metropolitan area, the Corridor is automobile dependent. Nearly 80 percent of workers living within Corridor-proximate Census tracts rely on private vehicles for their commute, a figure that encompasses both driving alone (more than three-fourths of this group of auto dependent people) and carpooling. Exhibits 6a and 6b provide relevant statistical detail for geographies directly relevant to the Corridor and its constituent communities.

Exhibit 6a: Commuting Pattern Breakdown by Travel Method, 2011 5-year Average Estimate for Corridor Census Tracts



Source: Census Bureau

Exhibit 6b: Commuting Pattern Breakdown by Travel Method, 2011 5-year Average Estimate for Corridor Census Tracts

	Southeast	Mid-town	Southwest	Northern
Workers 16 years and over	1,610	5,782	5,571	4,341
Car, truck, or van -- drove alone	70.9%	66.8%	61.7%	65.9%
Car, truck, or van -- carpooled	8.1%	17.6%	12.6%	14.7%
Public transportation (excluding taxicab)	13.9%	12.4%	16.9%	12.5%
Walked	1.2%	2.7%	3.5%	2.9%
Other means	0.0%	0.0%	1.4%	0.0%
Worked at home	6.0%	0.4%	4.0%	4.1%
<i>Mean travel time to work (minutes)</i>	<i>29.6</i>	<i>88</i>	<i>58</i>	<i>73</i>

Source: Census Bureau

While the consulting team's traffic study indicates that the relevant portion of Frederick Avenue offers some capacity despite popular conceptions to the contrary, the Corridor simply is not positioned to accommodate the types of high-density development envisioned for transit-oriented communities. In 2012, Sage Policy Group, Inc. studied the implications of a proposed Rapid Vehicle Transit system in Montgomery County. As part of the analysis, Sage analyzed ten master plans, including those for White Flint, Shady Grove, Great Seneca and Germantown. Several of these plans, including most explicitly the White Flint Master Plan, had articulated requirements for transit use before subsequent build-out could proceed. Presumably, this is where much of the county's future density will be.

The Corridor is not presently organized to accommodate that level of density, in part because of the relative lack of fixed-rail transit or other broadly appealing mechanism such as bus rapid transit. Moreover, even if a higher level of transit service were available, the lack of developable sites would represent a constraint. Tear-down activity is of course possible, but the Corridor has not deteriorated to the point that the economics of tearing down leased apartment buildings, occupied retail space or office space makes sense.

The Corridor in the Context of Citywide Economic Development

Like many communities, the City of Gaithersburg has wrestled with the issue of balancing growth with infrastructure availability. In 2012, the City of Gaithersburg adopted two amendments to its adequate public facilities ordinance (APFO), one of which (T-404) is associated with school capacity requirements. That APFO element presently establishes a 110 percent school capacity standard. T-404 creates a mechanism by which the Mayor and City Council may grant school capacity waivers if certain other conditions are met. The other amendment, T-405, states that Traffic Impact Studies are not required at the concept and sketch plan application phase.

The City's APFO requires that all intersections and/or links resulting in a Level-of-Service (LOS)/Critical Lane Volume (CLV) worse than the City's current congestion standard of 1,450 vehicles per hour must be counteracted to allow development to move forward. If the calculated CLV exceeds the City congestion standard, improvements must be supplied in order to provide sufficient capacity that either results in satisfaction of the 1,450 vehicles per hour standard or which mitigates additional traffic.²

Gaithersburg's APFO is quite restrictive relative to competing/proximate communities. For example, in the City of Rockville, the congestion standard ranges from 1,500 to 1,700 (vehicles per hour) depending on the density of signal phases and length of cycle lengths.³ The Shady Grove Sector Plan that was approved by Montgomery County allows a CLV level of 1,800. Montgomery County raised standards for the Germantown Center to 1,600 in order to better implement the *Germantown Master Plan*.⁴

The City of Gaithersburg's 2009 Master Plan notes the move toward greater congestion acceptance in neighboring communities:

"These surrounding areas have increased congestion standards to facilitate their vision for planned growth. The City, located so close to these areas, will be impacted with additional congestion as these areas develop. These neighboring regions have adopted a policy that accepts and permits greater congestion in exchange for multimodal Smart Growth redevelopment

² City of Gaithersburg. (2010). 2009 Master Plan: Transportation (A Master Plan Element). Retrieved from http://www.gaithersburgmd.gov/Documents/masterplan/transportation_Final.pdf

³ Id., P.14

⁴ Id.

projects. The City's own plans for future growth through redevelopment may be hampered as these external traffic pressures prevent City projects from passing the APFO test. The City's APFO standard of 1,450 will be difficult to achieve and the high costs associated with required mitigation measures as well as the physical limitations of real-world implementation may render development projects financially infeasible."

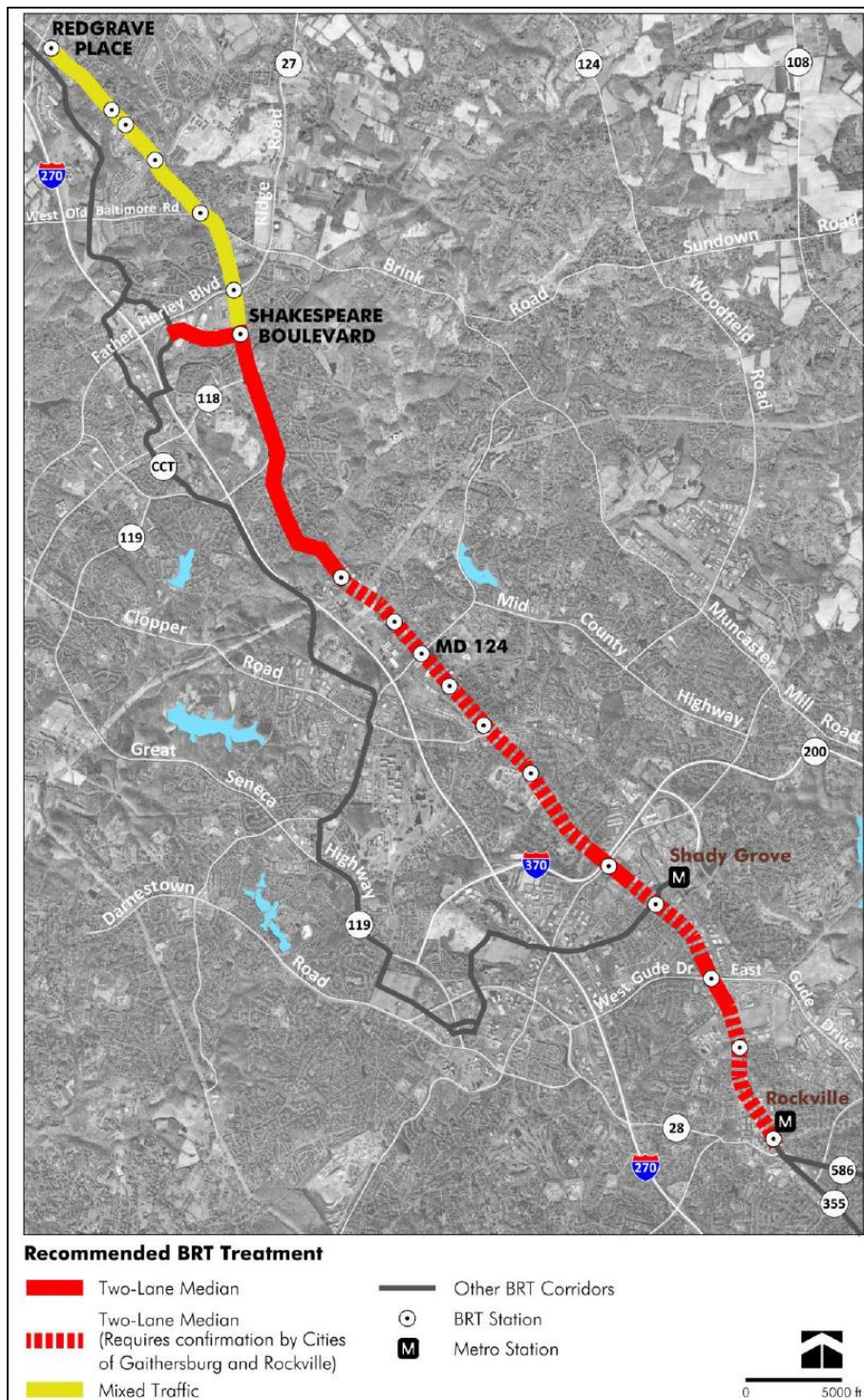
Bus Rapid Transit as a Game Changer

In July 2013, Montgomery County published its *Countywide Transit Corridors Functional Master Plan*, which focuses on a potential 150-mile bus rapid transit (BRT) network as well as bicycle-pedestrian priority areas and the need for an expanded MARC commuter rail service. Importantly, the Plan recommends the supply of seven stops within the Corridor neighborhoods relevant to this study.⁵

Very few communities would benefit as much from the provision of a well-functioning BRT system as the Frederick Avenue Corridor. By enhancing connectivity, such a system would immediately render office, retail and residential space more valuable. Based on utilization, the BRT system could also allow for bolder, denser projects. This is critical. The study team recognized early on that the Corridor needs a set of prime movers; projects that reshape the Corridor's image and create greater mass appeal. Current road capacity may not be enough to accommodate those prime movers, but a viable BRT system could create a level of access that would allow for impactful, transformative investments to move ahead.

⁵ Id., P.38 & 39.

Potential BRT Stops in and around the Corridor



1. Professional Drive
2. Watkins Mill Road
3. MD 124
4. Odendhal Avenue
5. Brookes Avenue
6. Education Boulevard
7. Shady Grove Road

Source: Montgomery County Planning Department

II. The Corridor Development Context

This section supplies key findings emerging from the study team's review of relevant City plans. To support the analysis, a series of maps and zoning code descriptions are provided to offer the reader visual insight into how land along the Corridor is currently utilized and regulated.

Key Findings Regarding Corridor Utilization and Challenges

- ✓ Land use is explicitly segregated by Diamond Avenue and CSX rail. Northern parts are predominantly commercial while the south is more intensely residential;
- ✓ The southern corridor residential area (Shady Grove to Diamond Avenue) is heavily populated by small-scale, single family residences. Large scale parking is in short supply in this area;
- ✓ The northern section of the corridor (past Diamond Avenue) is predominantly commercial and among other things offers large parking areas. There are also large- scale multi-family complexes;
- ✓ Uses along the Corridor are primarily associated with single-use buildings dedicated to commercial, office, or residential purposes. Some mixed use development exists north of Montgomery Village Avenue;
- ✓ There are few perceptible centers of activity or places for gathering along the corridor;
- ✓ Pedestrian connections along the corridor are inadequate, disconnected, and unsafe for pedestrians and there are no bicycle friendly routes or connections;
- ✓ Land use densities and the floor area ratio (FAR) do not transition logically away from MD 355 along the Corridor;
- ✓ With only a few exceptions, open space is typically made up of leftover green space due to inefficiencies of site layout/parking lots;
- ✓ There is a lack of sense in placement along the Corridor, which from a windshield perspective looks like a disorganized mismatch of uses that is too organic by modern standards;
- ✓ Parking is predominantly surface parking with few if any parking structures. It is more consistent with strip center development than suburban office parks, which reflects part of the area's inability to compete with fresher commercial concepts. There is little to no shared parking and individual buildings are parked to code.

Key Findings Regarding Corridor Zoning

The study team notes the following predominant zoning types as one moves through the Corridor from south to north:

- ✓ *South Area between Shady Grove Rd. and Cedar Ave.:* R-A (Low Density Residential) and R-90 (Medium Density Residential with an option for Cluster Development) residential zones with CD (Corridor Development) zoning along much of the Corridor frontage;
- ✓ *Central Business Area between Cedar Ave. and Montgomery Village Ave.:* Associated exclusively with Olde Towne Gaithersburg, CBD (Central Business District) and CD commercial zones transitioning to C-2 (General Commercial);
- ✓ *North Area between Montgomery Village Ave. to Game Preserve Rd.:* C-2 and MXD (Mixed Use Development) with some I-3 (Industrial Office Park) with a small area of R-18 (Medium Density Residential) fronting on to Frederick Avenue.

Furthermore, the study team observes a general progression of zoning from residential dominant zoning in the south, Central Business District Zoning (Olde Towne) / Corridor Development in the center, and to predominantly Mixed Use Zoning in the north. The implication is that the northern parts of the Corridor offer the most flexibility in terms of project designs. The Corridor is also associated with a transition from Euclidean Zoning to more Performance Based Zoning accompanied by its inherent design review processes.

The following six exhibits provide detail land use profiles for the South, Central and Northern segments of the Corridor. Exhibit 7a and 7b relate to land use and zoning information for the northern portion of the corridor, which is defined as the segment between Game Preserve road and Montgomery Village Road (MD 124). Corresponding information for the central portion of the Corridor is reflected in Exhibits 8a and 8b. Information regarding the southern segment of the Corridor, which includes areas south of Cedar Avenue, is reflected in Exhibits 9a and 9b.

Exhibit 7a: Current Land Use Plan Map by Zoning Type, Game Preserve Road – Montgomery Village (MD 124)

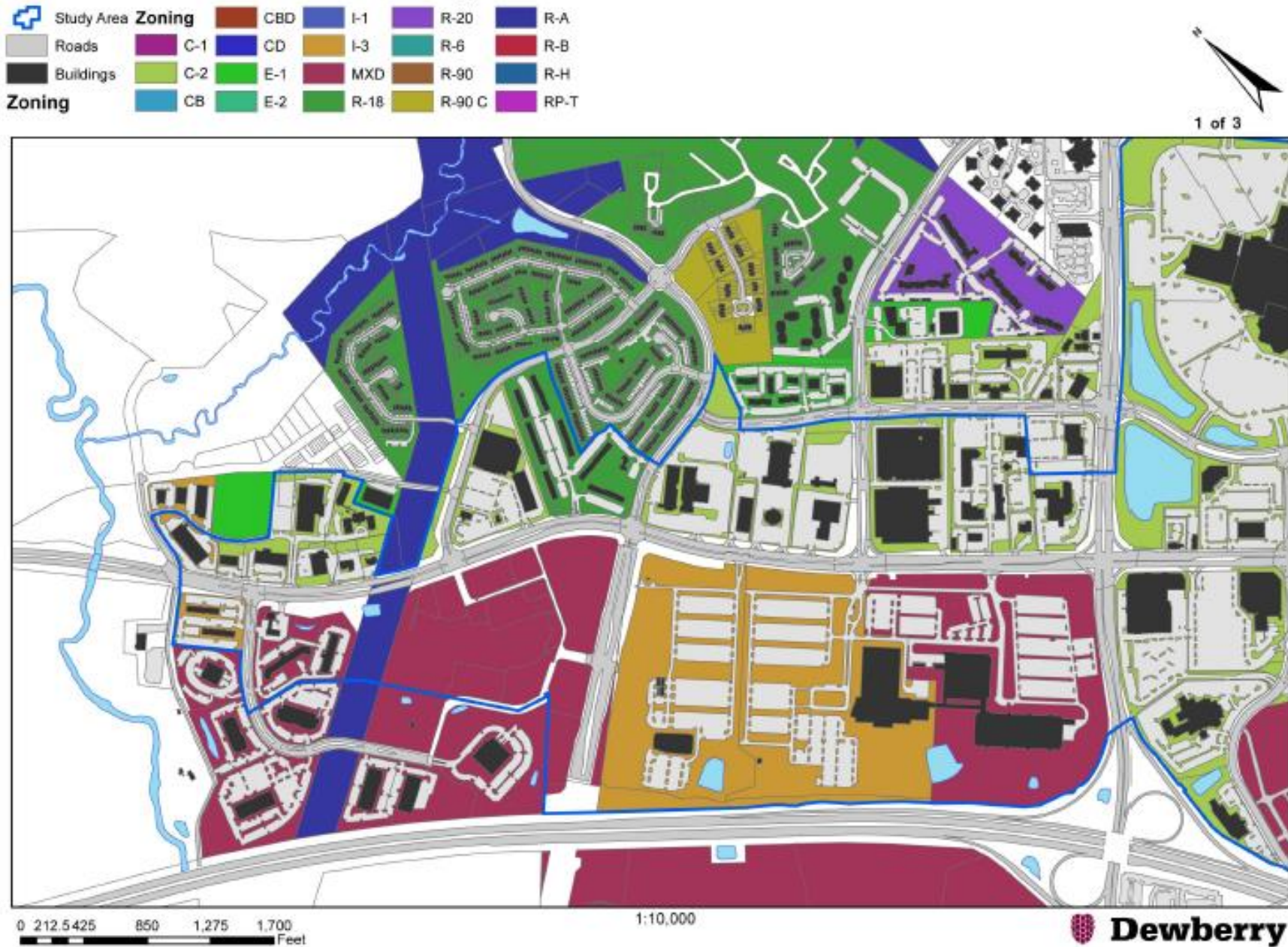


Exhibit 7b: Current Land Use Plan Map by Building Type, Game Preserve Road – Montgomery Village (MD 124)

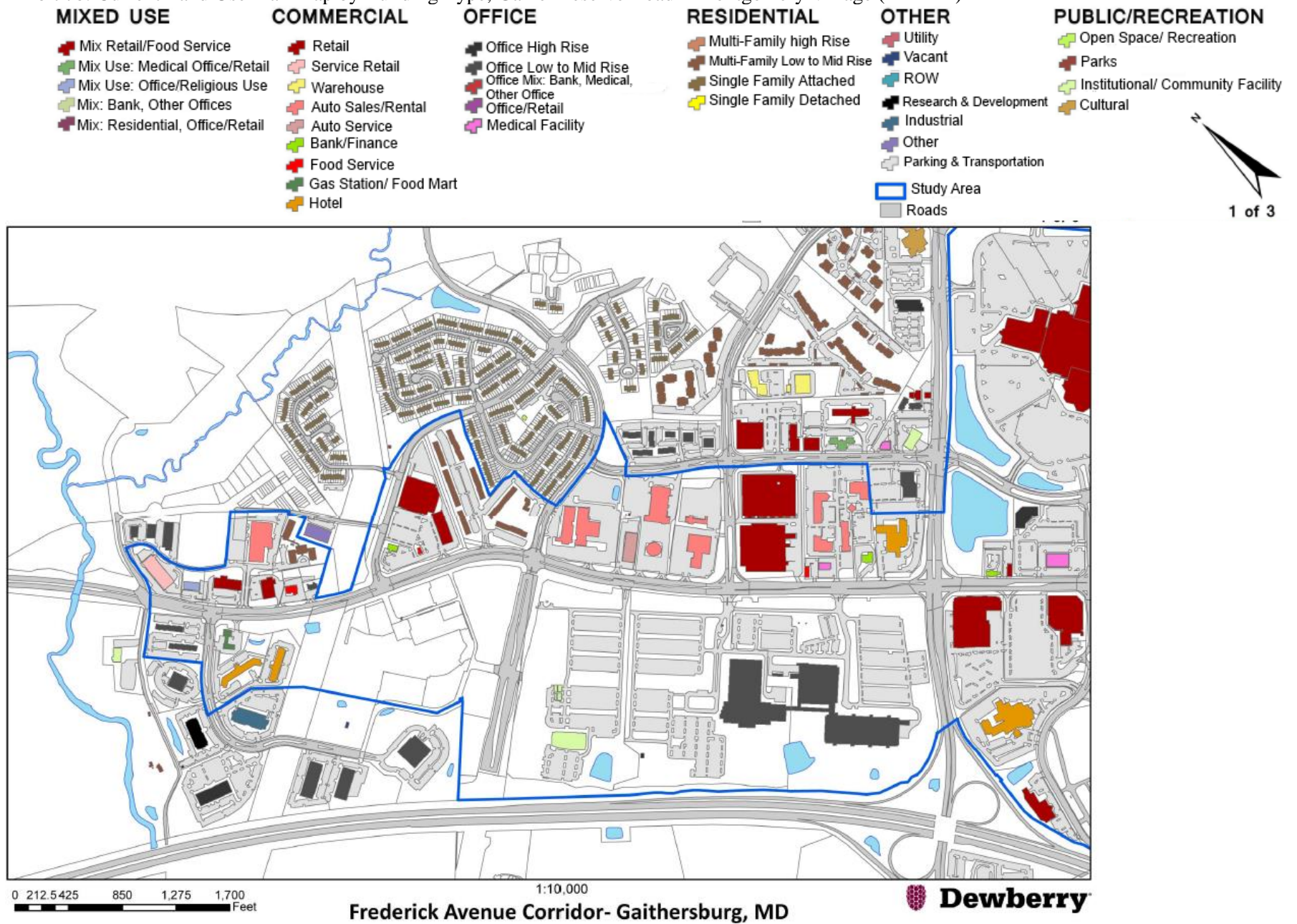


Exhibit 8a: Current Land Use Plan Map by Zoning Type, Montgomery Village Avenue – Diamond Avenue/CSX Rail

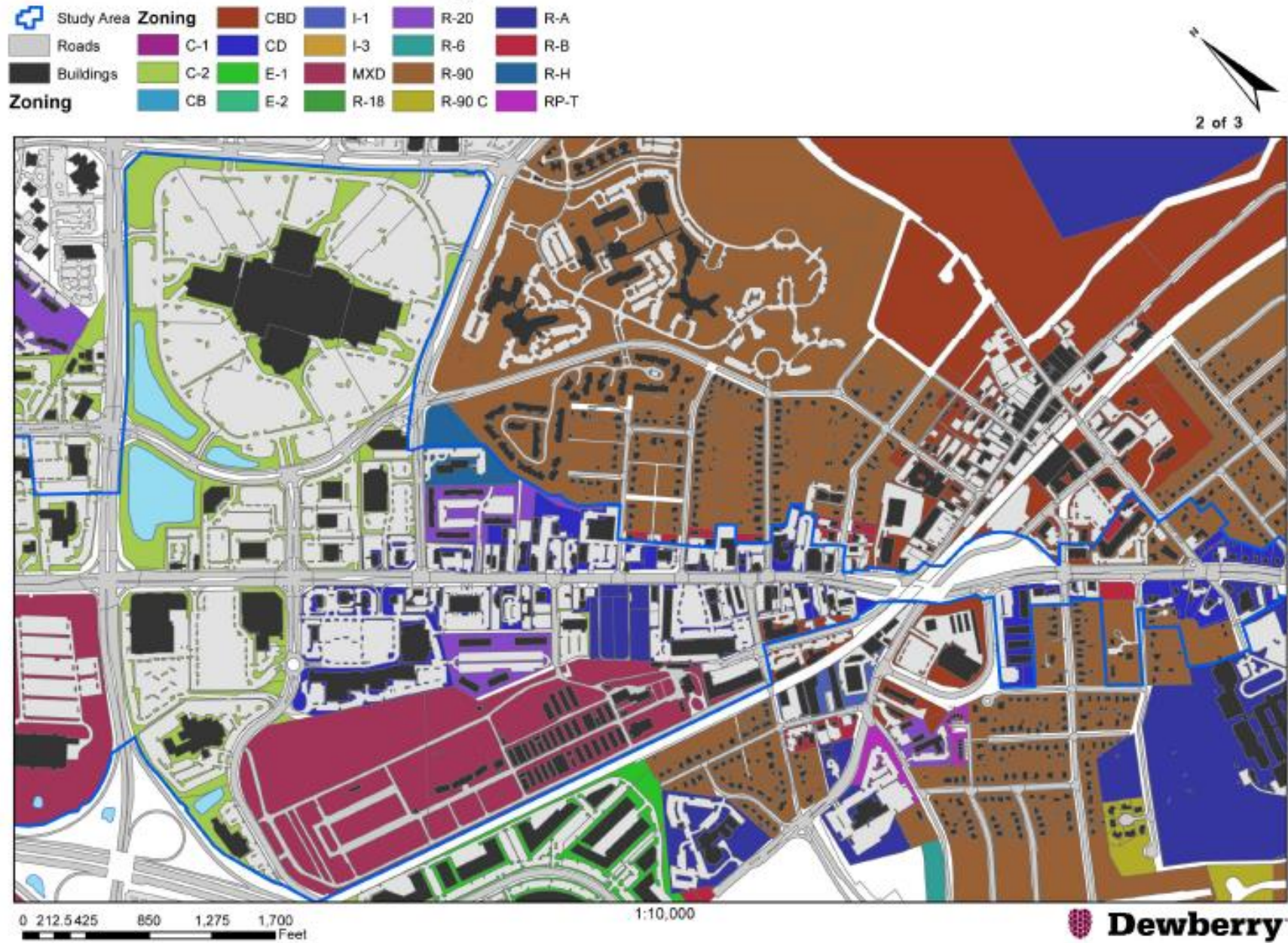


Exhibit 8b: Current Land Use Plan Map by Building Type, Montgomery Village Avenue – Diamond Avenue/CSX Rail

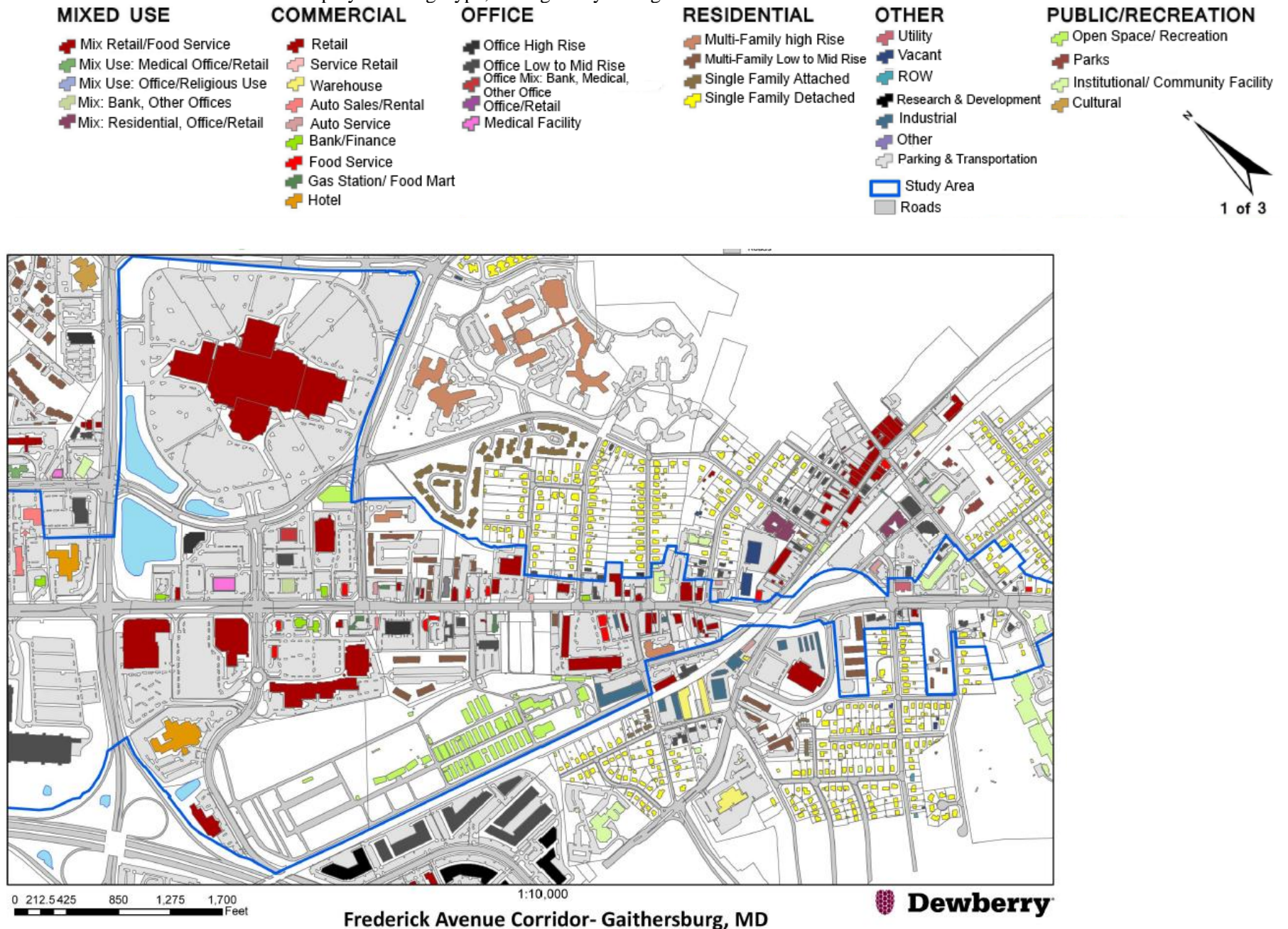


Exhibit 9a: Current Land Use Plan Map by Zoning Type, Shady Grove – Deer Park Avenue

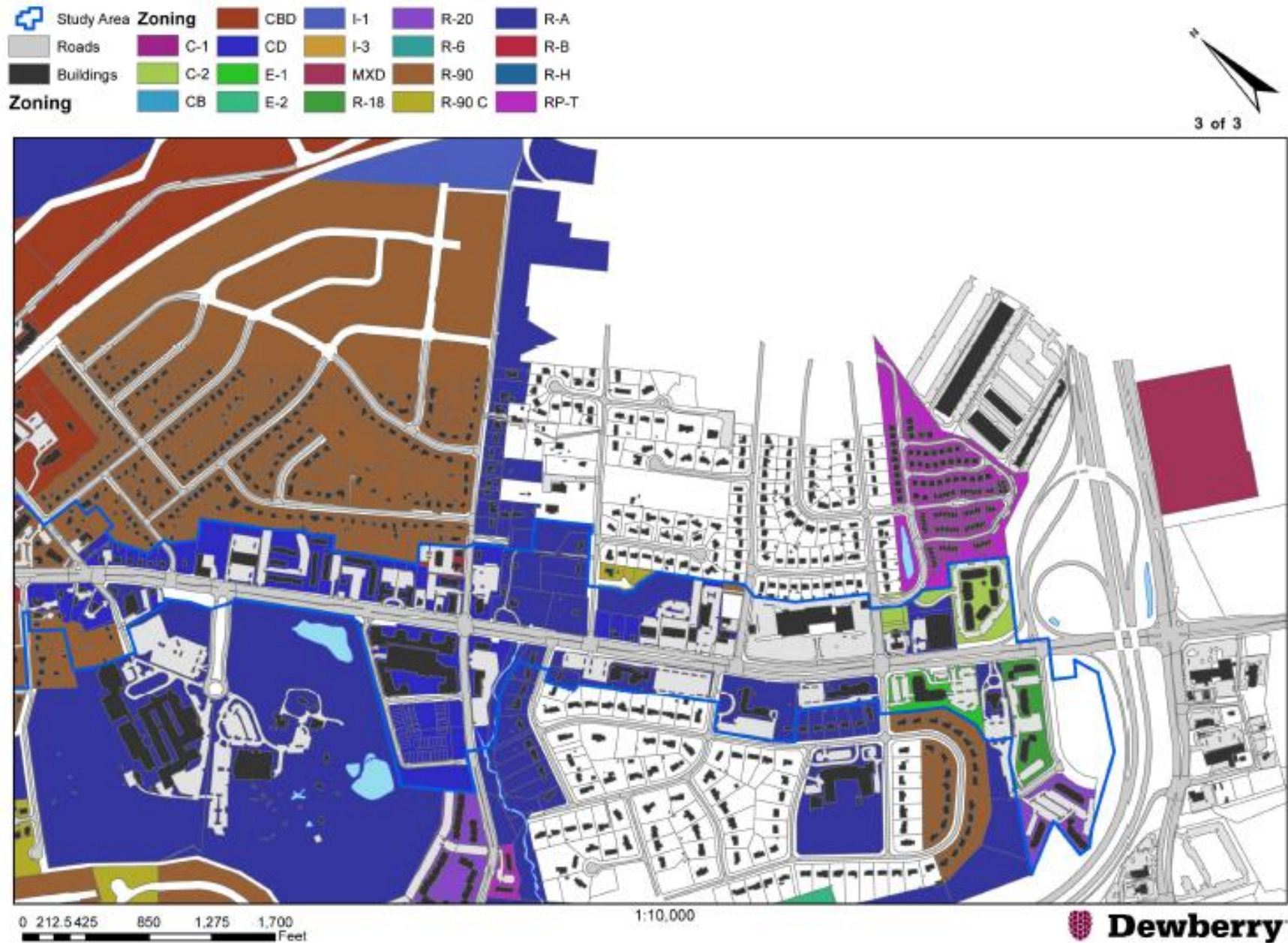
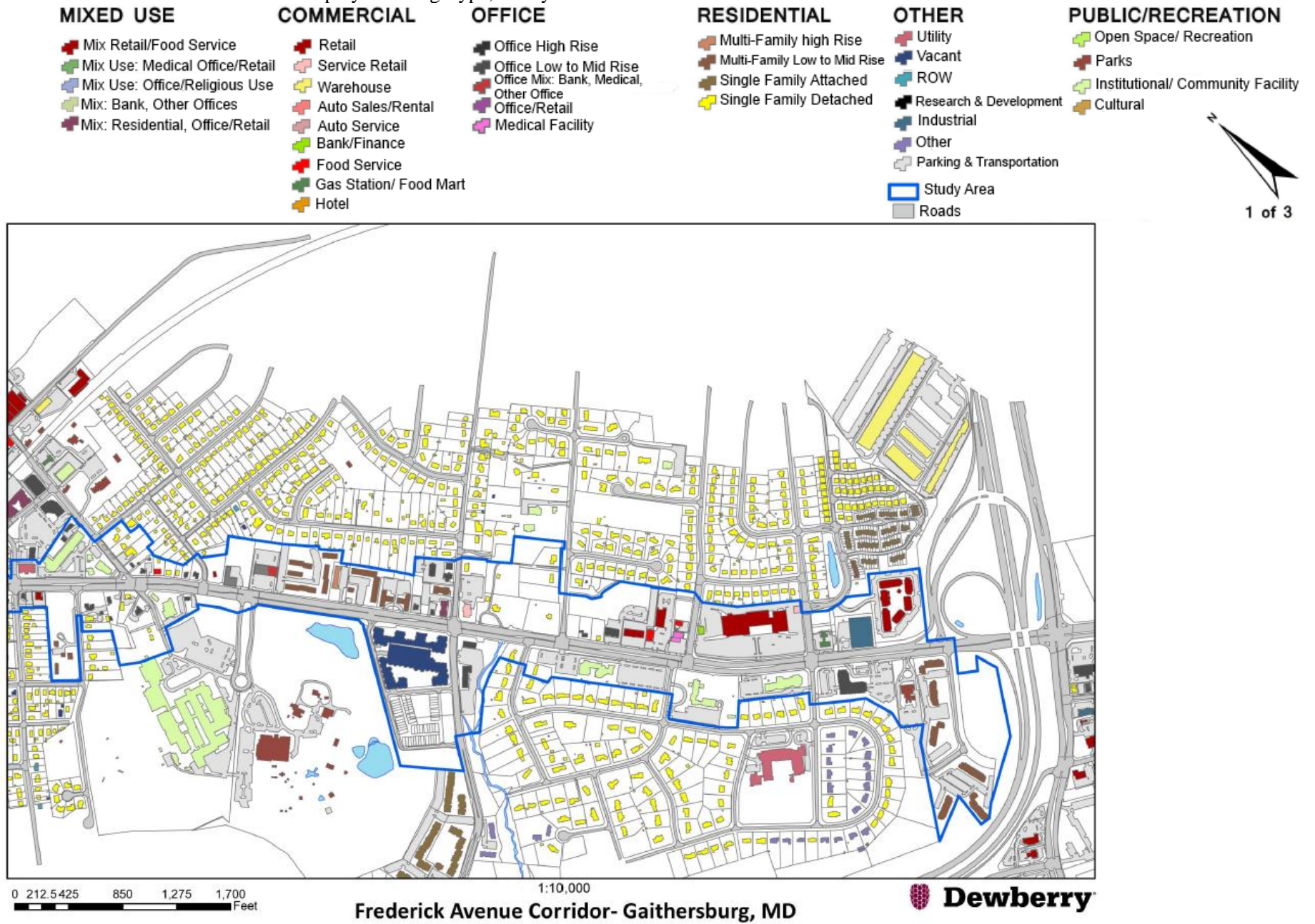


Exhibit 9b: Current Land Use Plan Map by Building Type, Shady Grove – Deer Park Avenue



Descriptions of Gaithersburg Zoning Codes

To fully understand the purpose of the recommendations offered in this report, it is important to understand the specifics of zoning in the City of Gaithersburg. There are a total of 11 types of land use zones identified within the study area. Each of these uses is summarized below based on the City's zoning ordinance codes:

I-3 – Industrial Office Park

The purpose of the I-3 Zone is to provide for park like development of industries or offices that are relatively nuisance-free. Uses permitted in this zone are provided a healthful operating environment secure from the encroachment of commercial or residential uses, and protected from adverse effects of incompatible industries. The regulations in this zone will reduce the impact of employment centers on surrounding uses by lessening traffic congestion, protecting the health and safety of workers and residents nearby, and by preventing detrimental effects on properties adjoining or in the neighborhood.

MXD – Mixed Use Development

It is the objective of this zone to establish procedures and standards for the implementation of master plan land use recommendations for comprehensively planned, multi-use projects. It is also intended that this zone provides a more flexible approach to the comprehensive design and development of multi-use projects than the procedures and regulations applicable under the various conventional zoning categories. In so doing, it is intended that this zoning category be utilized to implement existing public plans in a manner that is pertinent to city policies.

C-2 – General Commercial

The C-2 Zone is meant to include commercial uses serving the regional and local area, together with normal supplemental uses and other uses compatible with a cohesive and attractive shopping and office area.

R-18 – Medium Density Residential

The R-18 Zone is intended to stabilize and protect medium density areas by encouraging a range of dwelling types which would create a varied denser urban residential pattern suitable to the needs of the population. This multiple-family zone has a maximum density of eighteen (18) dwellings units per net acre and permits a maximum main building height of eighty (80) feet, yet retains the open character of residential areas by requiring fifty (50) percent green space. It is intended that this zone will provide the maximum possible freedom in the design of structures and their grouping and will encourage flexible and imaginative layouts and designs.

CD – Corridor Development

It is the purpose of the Corridor Development Zone to: Encourage a form of development consistent with the goals and provisions of the respective master plans for the city that will achieve the physical characteristics necessary to enhance the economic vitality, planned visual character, and quality of life within an identified transportation corridor in the city; Create a more attractive and cohesive development pattern and enhance the city's sense of place through creation of distinctive character associated with the corridor in the applicable corridor master plan; Encourage development, redevelopment and renovation of declining or underutilized properties along the corridor; Encourage the use of consistent, compatible, and attractive architecture, streetscape and visual themes; Create a

streamlined process for zoning and plan approvals; Provide an appropriate scale of development and mix of retail, service, employment and residential uses as recommended in the applicable corridor master plan.

R-20 – Medium Density Residential

The R-20 Zone is intended to stabilize and protect medium density areas by reducing hazards to the living environment and to provide for a varied, denser urban residential pattern suitable to the needs of the population by encouraging a range of dwelling types.

CBD – Central Business District (a.k.a. Olde Towne Gaithersburg)

The CBD Zone is intended to foster revitalization by promoting a desirable mix of commercial, office and residential uses. The zoning code gives incentives to provide public amenities and a variety of leisure uses and activities to meet the needs and requirements of residents, workers, shoppers and visitors.

R-90 – Medium Density Residential with an option for Cluster Development

The R-90 Zone is intended to stabilize and protect medium density residential areas by reducing disturbances to the living environment, and to provide for a varied urban residential pattern suitable to the needs of the population by encouraging a range of dwelling types.

R-A – Low Density Residential

The R-A Zone is intended to provide primarily for low density residential areas and nonresidential, institutional uses and public use areas.

RPT – Medium Density Residential

The RP-T Zone is intended to provide for the development of a variety of residential uses at a density higher than that permitted in the R-90 Zone, and to encourage the provision of usable open green space areas. It is further intended to encourage creativity in the design of residential development by the elimination of minimum lot sizes and some yard requirements.

R-H – High Density Residential

Although the zoning ordinance does not give a defined purpose for the R-H zone, it allows for the development of Townhomes and Multi-family housing, including condominiums. It also allows for personal service businesses, restaurants, public buildings / accessory uses, and structures.

Lakeforest Mall and Montgomery County Fairgrounds

As stated above, the study team has identified a need for prime movers to be situated in the Corridor. What is envisioned are projects that are relatively large in scale and that invite people into the Corridor for multiple purposes and on multiple occasions over the course of a given year. The Corridor is generally characterized by a lack of developable open space. However, there is a certain amount of open space at both the Fairgrounds and at Lakeforest Mall. This section is therefore devoted to current uses at these locations and serves as additional context in support of the study team's recommendations.

It is important to note that land availability while necessary is not in and of itself sufficient to create a context supportive of needed prime movers. There must also be community support and private participation, including among current property owners. Lakeforest Mall is privately owned, and there are also some community stakeholders who would prefer that the Montgomery County Fairgrounds remain untouched and available for historic uses.

Lakeforest Mall has been an important signature element and landmark in Gaithersburg and in the Corridor since its opening in 1978. The mall supplies more than a million square feet of retail space. It is large. Anxiety regarding its future has been building for a number of years, and reached a recent pinnacle when Simon Property Group, a part owner of the mall, faced imminent default back in 2010.⁶ Occupancy rates for the parts of the mall owned by Simon Property fell to 62.5 percent, down from 89 percent when the firm acquired its stake in 2005. According to a local news source, excluding the anchors, nearly half of the mall was vacant.⁷

Prospects for the mall improved with its acquisition by Five Mile Capital Partners. The new owner announced a \$20 million improvement to reposition the mall.⁸ Even more recently, the mall announced that it is undertaking \$1.2 million worth of improvements in the very near term. Improvements are slated for the food court, children's play area, and the center court area.⁹

⁶ Goldreich, Sonny. (May 14th, 2010). Commercial Real Estate: Lakeforest mall owners facing default on loan. *Gazette.Net*. Retrieved from http://ww2.gazette.net/stories/05142010/businew171313_32549.php

⁷ Id.

⁸ O'Connell, Jonathan. (September 2nd, 2012). Five Mile Capital Partners buys Lakeforest Mall in Gaithersburg, plans \$20 million in improvements. *Capital Business*. Retrieved from http://articles.washingtonpost.com/2012-09-02/business/35496527_1_tanglewood-mall-les-morris-strip-malls

⁹ Carignan, Sylvia. (August 12, 2013). Lakeforest Mall to get \$1.2 million in improvements. *Gazette.Net*. Retrieved from <http://www.gazette.net/article/20130812/NEWS/130819975/1257/lakeforest-mall-to-get-12-million-in-improvements&template=gazette>

Exhibit 10. List of Major Tenants in Lakeforest Mall

<i>Food Svc. & Restaurants</i>	Charik	Wet Seal	The Jewel Box
Auntie Anne's®	Charlotte Russe	Zumiez	Jewelry Creations
Candy World	Children's Place		Kay Jewelers
Cinnabon	Children's Shoe Box	<i>Department Stores</i>	Littman Jewelers
Dairy Queen	Class Act	JCPenney	Mix Box
Dippin' Dots	Cotton On	Lord & Taylor	Piercing Pagoda
Rita's	Crazy 8	Macy's	Rainbow Fashion
SPAGnVOLA	Damion Style	Sears	Secret Garden
Starbucks	DTLR		Shaw's Jewelers
Tea.com	Easy Spirit	<i>Others</i>	Silver King
Curry Place	ES2	Access Health	Tribal Rugs & Jewelry
Nori Japan	Express	Angela's Beauty Spa	Waldin Jewelers
Pollo Campero	Femme Fatale	The Barber Shop & Co.	Zales Jewelers
Central News	Finish Line	Bath & Body Works	HomeMax
Charley's Grilled Subs	Foot Locker	Beautiful U	Oriental Decor
Grill Kabob	FootAction USA	Braiding Center	Tribal Rugs and Jewelry
Kelly's Cajun Grill	Forever 21	First Choice Perfume	Allstate Insurance
McDonalds	Gussini Fashion & Shoes	Freestyle Beauty Supply	Avis Car Rental
Panda Express	Gymboree	Wet Seal	Charlie's Embroidery
Sbarro Italian Eatery	H&M	Zumiez	Dandy Custom Tailor
Subway	Hollister Co.	French Perfumes	Express Gold Trade
Texas Bar-B-Q Factory	Hot Topic	GNC Live Well	Gold Traders
Ultimate Smoothie	Journeys	K & I Beauty	Hakky Shoe Repair
J. Marie	Justice	Magic Health Plus	Jackson Hewitt
Red Robin	Lids	Nail City Spa	Liberty Tax Service
Ruby Tuesday Restaurant	Men's Warehouse and Tux	Passion Nail Spa	Metabank ATM
		Ronky Creative Hair	Montgomery County
Silver Diner	New York & Company	Salon	Library
	Payless ShoeSource	Sephora	Services Unlimited
<i>Apparel</i>	Rootz	Synergy Dance Fitness	Test America
Aeropostale	Shoe Dept. Encore	Unique Eyebrows	US Wushu Academy
American Eagle	Style One	Claire's Boutique	
Body Central	The Limited	Endless Time	
Budget Boutique	Trendz	Himalayan Gift Shop	
Champs Sports	Vibes	Icing by Claire's	
	Victoria's Secret		

Source: Lakeforest Mall (Store Directory)

The directory presented above also indicates that the mall is home to a number of fashion forward retailers, including Aeropostale, Victoria's Secret and Waldin Jewelers. The mall is also home to prestigious anchors such as Lord and Taylor and Macy's.

On the other side of Frederick Avenue is another potential re-developable parcel - the Montgomery County Agricultural Center, better known as Montgomery County Fairgrounds. The Fairgrounds have recently undergone a rezoning process, which opens the door to the potential redevelopment of this

large block of land. The Fairgrounds encompass 62.83 acres.¹⁰ Rezoning of this complex had been contemplated by the Mayor and City Council since early 2011. In 2012, the Fairgrounds was rezoned from *Low Density Residential* (R-A) and *Light Industrial* (I-1) to *Mixed Use Development* zone (MXD).

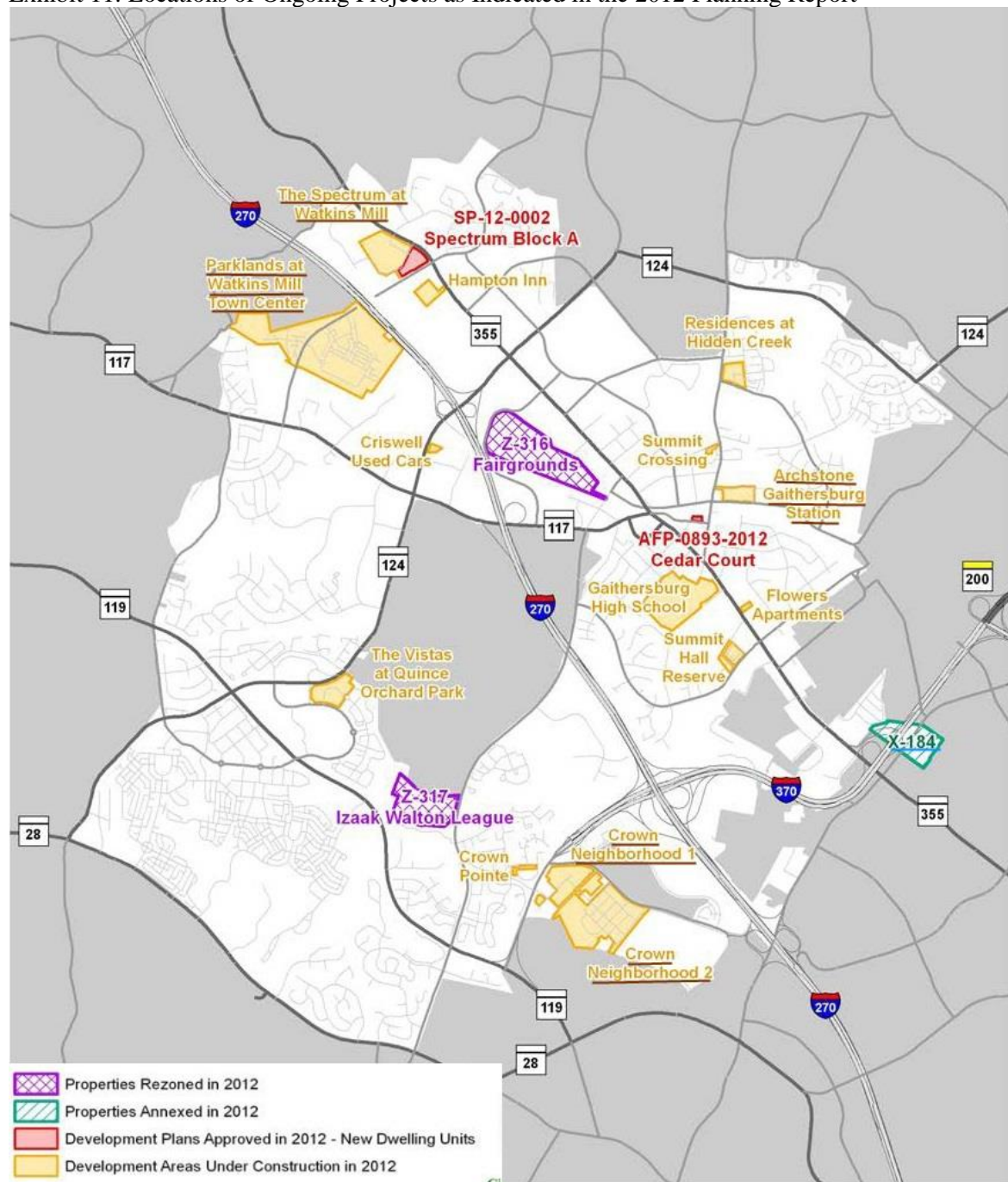
An approved sketch plan envisions development of 1,100 to 1,350 residential units along with 800,000 to 1,150,000 square feet of commercial space.¹¹ That scale would represent a difference maker in the Corridor, though the price points of the homes and quality of commercial development will materially impact whether or not such development will translate into a more vibrant Corridor. The study team believes that if this development moves forward, there should be an explicit goal of upscaling the Corridor, with emphasis on pricier townhomes and luxury apartments. The rationale for this is that the Corridor needs more spending power to attract the quality of amenities that will stabilize it and reposition it as a community of choice.

It is worth noting that development taking place at the Fairgrounds would be competing with other sites vying for private capital. Parklands at Watkins Mill Town Center and the Spectrum at Watkins Mill represent two noteworthy competitors. Combined, these 125 acres of mixed use development are located within the City limits and are at the intersection of Watkins Mill Road and I-270 in the midst of the biotech corridor. The project includes a residential component, a senior center, and the Montgomery County Sixth District Police Station. Development at the Crown site represents another proximate competitor. This development is occurring on a 180-acre site near the intersection of I-270 and I-370. The developer also envisions a town center style configuration, this one offering sustainable development concepts.

¹⁰ City of Gaithersburg. (2012). Annual Planning Report, P6.

¹¹ City of Gaithersburg. (n.d.) Montgomery County Agricultural Center, Z-316. Retrieved from http://www.gaithersburgmd.gov/poi/default.asp?POI_ID=1978&TOC=311;1260;1978;

Exhibit 11: Locations of Ongoing Projects as Indicated in the 2012 Planning Report



(Source: City of Gaithersburg, “2012 City Planning Report.” Amended by Sage);

NOTE: Underlined projects contain specified commercial component.

These Gaithersburg-situated developments will in turn compete with other development taking place regionally, including several very ambitious projects within other Montgomery County communities. In fact, some of the stiffest competition will come from communities within Gaithersburg city limits. There are also emerging communities such as Urbana in southern Frederick County that have managed

to attract large employers such as the Social Security Administration, Fannie Mae and the Banner Life Insurance Company.

Development in and around the Corridor represents both opportunity and threat. Greater levels of regional economic activity create revenue opportunities for property and business owners in the study area. But development at the Fairgrounds or elsewhere must also compete with sites that may have more transit access, are not as AFPO-constrained, or simply presently enjoy more attractive demographics.

Retail Availability and Corridor's Potential

The demographics of the Corridor help define the types of retailers that find the community suitable for their offerings. The relative lack of certain forms of retail in turn help explain office market dynamics, with the area often not supplying amenities that are presumed to be part and parcel of first class office environments.

In other words, the Corridor is not particularly upscale, which is precisely what one would expect given a community in which median incomes have been stagnant. In its current form, the Corridor is unlikely to attract art galleries, fashionable boutiques or high-end restaurants – the demographics simply do not fit the profiles associated with these types of retailers.

This is not to suggest that the Corridor is devoid of retail offerings. It is not. In fact, the Corridor's offerings are often quite interesting and richly ethnic. A sample of restaurants in the community is presented below. Notice the heavy presence of Asian restaurants in the area. However, also note the lack of many common restaurant brands associated with middle class America, including Applebee's, Olive Garden, TGIF, Ruby Tuesday, Chili's, etc. From an economic development approach, one might attempt to pursue such restaurants given their generally predictable success. With enough time and improvement, the Corridor may be able to attract the kinds of restaurants often associated with upscale commercial districts, including Capital Grille, Ruth Chris, Morton's among others.

List of Retailers and Restaurants Along the Corridor

<i>Retailers outside of Lakeforest mall</i>	<i>Restaurants around Corridor</i>
Costco	Ichiban Japanese Restaurant (Japanese)
Sam's Club	The Flaming Pit Restaurant (American, local)
Toys R Us	El Comalito (Latin)
Burlington Coat Factory	Golden Bull Grand Café
Food Lion	Ricky's Rice Bowl (Asian)
Bed Bath and Beyond	Old Country Buffet (American)
Ross Dress For Less	Cebiche House by Flavors of Peru (Latin)
	Antonio's Café
	Hunan Café
<i>Chain, Fast food Restaurants outside of Lakeforest Mall</i>	El Salvadoreno Latin Market
	Sardi's Chicken
Chipotle Mexican Grill	<i>Other Service-providing Establishments around Corridor</i>
Boston Market	
IHOP Restaurant	
McDonalds	Hair Cuttery
Panera Bread	Shoe Retreat
Chuck E Cheese	Mattress Shop
Quizno's	Auto Zone
KFC	Gas Stations (six of them)
Popeye's	Dryclean Warehouse
Pizza Hut	Jiffy Lube
	Midas Tire
	Heber Insurance
	Florist
	Liberty Tax Service
	Wachovia Bank
	Wells Fargo Bank
(Source: City of Gaithersburg: GoogleMaps)	

But there is another approach. The Corridor is already home to common names such as Chipotle and Panera. The City could deter the location of additional chain restaurants, choosing instead to provide incentives for area entrepreneurs to start unique, frequently ethnic restaurants. One observes the presence of these types of entrepreneur-led unique dining experiences in areas that have redeveloped successfully, including in downtown Silver Spring and Frederick. This approach could help give the Corridor a much-needed identity. In terms of restaurants, the goal is to provide eateries that fit the profile of destination dining experiences as well as to provide experiences that appeal to users of office space.

Though the Corridor's retail offerings are generally unremarkable, an assessment of retail offerings indicates that local retailers are positioned to supply the community with daily essentials such as food and basic apparel. There is of course the presence of fast food as well as independently-owned breakfast and lunch diners. This type of retail is pragmatic and therefore does not draw in people from

other communities, which is ultimately the economic development objective. The goal is to help upscale retailers and restaurateurs support their establishments not only through a better mix of incomes, but also by attracting more patrons from proximate, often affluent communities, including other parts of Gaithersburg. As we state later in the report, to attract higher quality amenities, the Corridor must attract higher quality development and establish a better mix of incomes.

III. Commercial Market Projections

Through the process of generating this report, the study team's analysis of quantitative and qualitative information reveals an economic Corridor that can be characterized as stagnant or in gradual decline along certain dimensions. But over the course of time, the Corridor continues to expand its offerings, at least in terms of square footage measurements. The projections detailed on the pages below are a reflection of the study team's best efforts to establish a baseline trajectory for the Corridor. In the process of producing these productions, the study team has endeavored to do more than simply extrapolate existing trends. The study team has also accounted for likely macroeconomic outcomes, competition from other communities for private investment, Corridor projects in the development pipeline and existing zoning. The analysis does not incorporate potential development associated with the Montgomery County Fairgrounds or with Lakeforest Mall.

Of course, through the intervention of policymakers, this baseline trajectory can be altered. The purpose of the options presented in a subsequent report section by the study team to the City of Gaithersburg is to help policymakers understand what policy tools are available to improve the Corridor's economic outcomes, how much various policy interventions are likely to cost and what they are likely to accomplish.

Based on GIS data from the Maryland-National Capital Park and Planning Commission (MNCPPC) and the City of Gaithersburg's 2009 Master Plan, the Corridor presently supports approximately 5.2 million square feet of commercial space, which includes office and retail, once one excludes the residential components of existing mixed-use developments.¹² Of this total, the majority (70%) is retail space. This statistic includes Lakeforest Mall, which itself encompasses a bit more than 1 million square feet.

In addition to providing baseline forecasts for employment-generating real estate uses, this market analysis provides estimates of future residential build-out. Exhibit 12 provides statistical detail regarding current commercial/office and residential uses in the Corridor. The figures in Exhibit 12

¹² Excludes the Spectrum development in the Commercial District.
City of Gaithersburg 2009 Master Plan, Land Use Elements. Retrieved from
http://www.gaithersburgmd.gov/Documents/masterplan/2009_Master%20Plan_Land_Use_Element_Adopted.pdf

differ slightly from the totals provided in the Frederick Avenue Corridor Development and Capacity Study because CoStar data was needed in the first study to develop historical trends.

Exhibit 12: Corridor Commercial Space excluding the Fairgrounds and other Ongoing Projects, Breakdown by Type of Use

USE:	TYPE:	Square Feet
Mixed Use	Bank, Other Offices	37,254
	Office/Religious Use	14,718
Commercial	Retail (+Retail Services)	2,400,899
	Auto Sales/Rental/Service	439,832
	Bank/Finance	42,789
	Food Service	51,012
	Gas Station/Food Mart	30,722
	Hotel	682,837
	Office High Rise	193,272
Office	Office Low-Mid Rise	1,215,293
	Office Mix	51,247
	Medical Facility	83,477
	TOTAL COMMERCIAL SPACE	5,243,352
	<i>TOTAL RETAIL:</i>	<i>3,648,091</i>
	<i>TOTAL OFFICE:</i>	<i>1,595,261</i>
Residential	Multi-Family High-Rise	244,819
	Multi-Family Low/Mid-Rise	1,828,324
	Single-Family Detached	42,540
	Single-Family Attached	383,298
	Residential (Mixed-use)	35,100
Corridor Tenancy Situation in 2010, based on Census		
Total Housing Units:	3,052	
Occupied Homes	2,792	(100.0%)
Owner	975	(34.9%)
Renter	1,817	(65.1%)

Source: Dewberry; 2009 Land Use Plan Program; The Maryland-National Capital Park and Planning Commission (MNCPPC) NOTE: The commercial space excludes Spectrum and Fairgrounds.

Short-term projections: Anticipated Real Estate Investment through 2017

Forecasting investment and economic activity is notoriously difficult. Fortunately, there are certain aspects of the present and future that are known with some meaningful degree of certainty. For instance, by 2017, the Spectrum project will likely be completed, adding more than 214,400 square feet of mixed-use space and 669 multi-family dwelling units, including apartments and condominiums. There are a number of other developments taking place in Gaithersburg but beyond the study area. If one presumes that these planned developments will be completed by 2017, the City would have a total

of more than 22.3 million square feet of commercial space at that time. Of that total, 43 percent¹³ or 9.5 million square feet would be retail with the remaining 12.2 million square feet used as office space. Exhibits 13 and 14 reflect the fact that the Corridor is not positioned to attract a proportionate share of private commercial or residential investment over the near-term. In terms of added commercial/office space, the Corridor is expected to represent only 2.3 percent of total net new square footage between now and the year 2017. At approximately 11 percent, the Corridor's new residential unit capture will be larger. In part, these projections are a reflection of two other realities characterizing the Corridor – 1) the lack of available developable land and 2) APFO restrictions, including with respect to vehicular traffic. There is also a relative lack of interest in the Corridor among nonresidential developers, which was made apparent during the study team's two focus groups.

Policymakers can respond to these realities in a number of ways. One is to simply embrace developers who offer to invest in the Corridor immediately, by supplying additional studio and 1-bedroom rental units. There remains a market for smaller rental units and there are opportunities within the Corridor to support those types of investments. The City had already approved construction of some 670 (669) multi-family units within the Spectrum.¹⁴

While attracting additional households is a way to generate new activity, the study team views an approach focused largely upon smaller, multi-family rental units as arguably counter-productive, at least to a degree. The Corridor is already heavily under rental housing in its composition and if anything there is greater need for rental units offering two or more bedrooms. Particularly in the Northern District, the opportunity cost of developing available land residentially is high. Commercial uses would be arguably more valuable from both economic and fiscal perspectives.

According to the U.S. Census Bureau, the Corridor is associated roughly with two-thirds rental and only one-third owner-occupied stock. This is a mirror image of the national average, in which not quite two-thirds are owners. While there is existing demand for smaller multi-family rental units in the Corridor, the study team believes that this demand should not be further met within the Corridor and that there are other communities that represent better destinations for such housing. What the Corridor needs now and going forward is a rising share of homeownership in part to increase average household income levels.

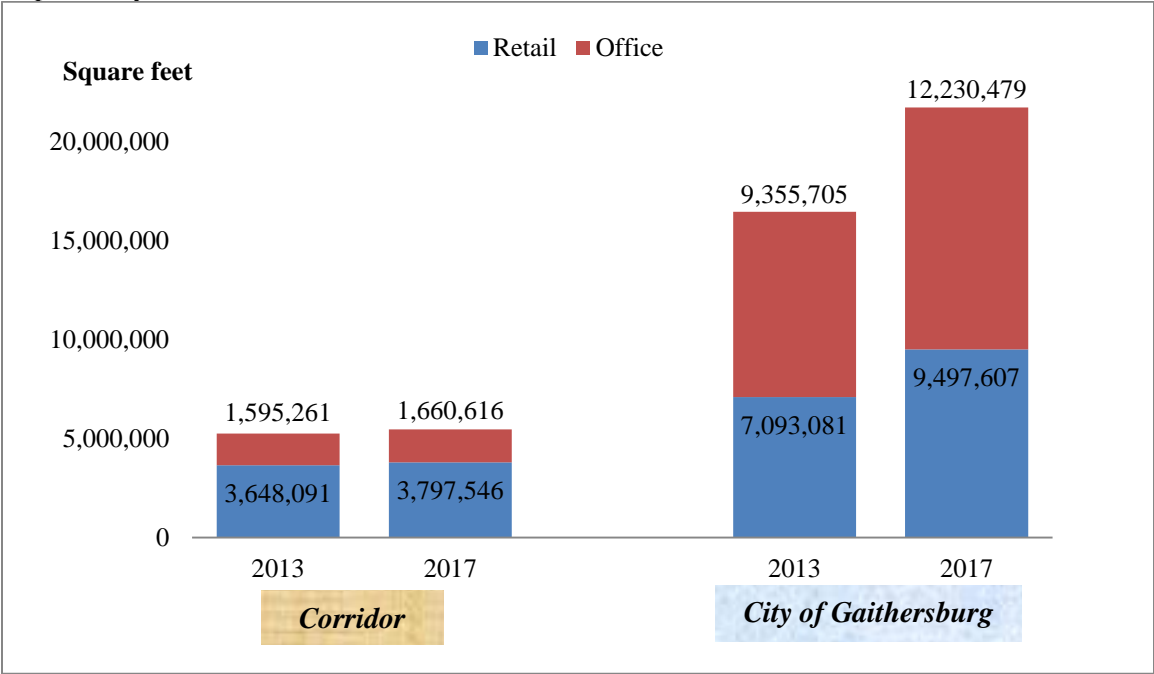
As a general proposition, the study team suggests that the City adopt an incremental, long-term approach. In the short-term, the Corridor would be steadily improved through a combination of rezoning, public investments and other policy instruments. The goal would be to position the Corridor for higher quality, more impactful development during the mid- and long-terms with greater emphasis

¹³ The proportion is based on the current breakdown reported by CoStar.

¹⁴ City of Gaithersburg. (July 2013). *Dwelling units and estimated population*. Retrieved from www.gaithersburgmd.gov/documents/dwelling_population_report.pdf p. 22

placed on owner-occupancy and higher-end commercial uses, including new Class A office space. This general approach is reflected neatly in the recommendations/options supplied by the study team.¹⁵

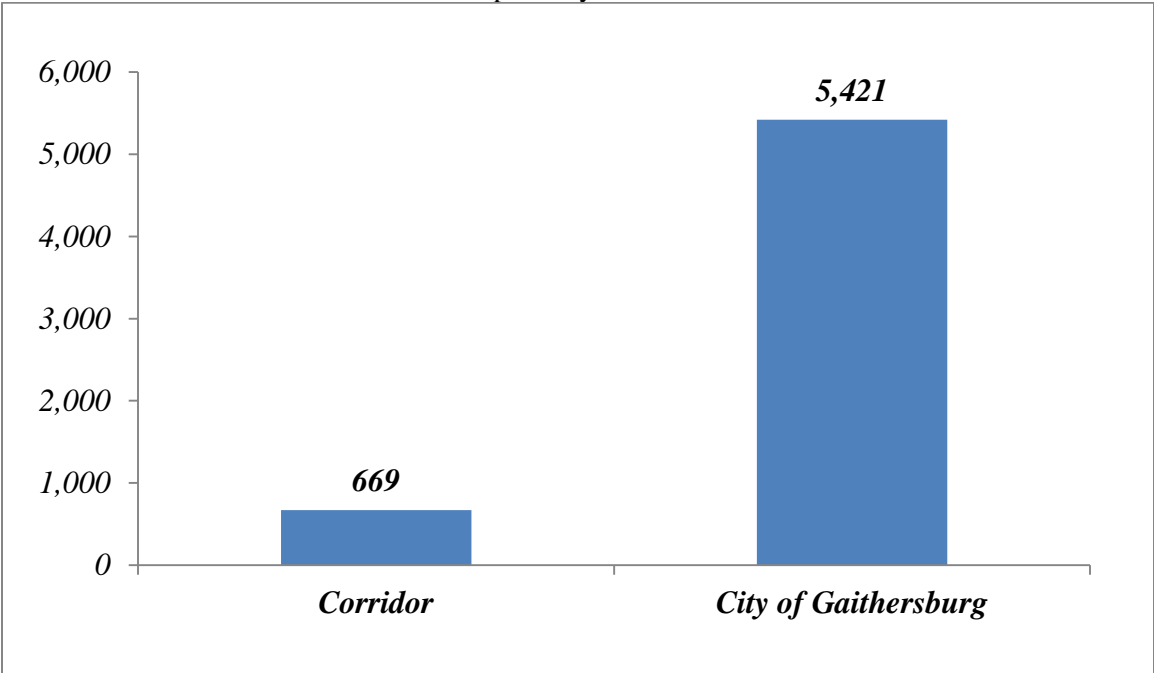
Exhibit 13: Expansion of the Commercial Space in the Corridor and the City of Gaithersburg Expected by 2017



Source: CoStar; Dewberry; NOTE: For those site plans which do not specify the use of commercial spaces, it is assumed that 30 percent of the total is office and the remaining space is to be used as retail. The proportion (30% office v. 70% retail) is based on Dewberry’s finding of the 2009 land use plan (See Exhibit 12.)

¹⁵ Because of concerns regarding traffic and the constraints associated with the City’s APFO, this analysis presumes that redevelopment of the Fairground will not take place before 2017.

Exhibit 14. New Residential Units Anticipated by 2017



Source: City of Gaithersburg, July 2013, *Dwelling Units and Estimated Population*

Anticipated Pace of Investment, 2018 and Thereafter

In projecting mid- to long-term Corridor market conditions, the study team embraced a top-down approach. Specifically, the study team relied upon employment projections generated under the Cooperative Forecasting program (Round 8.2) by the Metropolitan Washington Council of Governments (MWCOG). MWCOG’s projections embody national and local demographic factors as well as information gathered from community master plans and lists of pipeline developments.

The MWCOG projects that county-based employment will expand 4.3 percent (about 0.8% annually) between 2010 and 2015 and that it will continue to expand at annual rate of approximately 1.2 percent through 2030. Based on these data and ratios of industry employment supplied by the Quarterly Census of Employment and Wages (QCEW), the study team estimates that county employment in the retail sector will grow to 50,267 by 2025 and to 53,089 by 2030.¹⁶ Countywide employment in all other commercial sectors is projected to exceed 400,000 by 2025. In other words, the number of jobs in the county is expected to expand briskly over the next fifteen to twenty years.

¹⁶ Average of all 12 months.

Exhibit 15: Projection of Employed Population and Commercial Space in Montgomery County, 2012, 2020, 2025, 2030

	Current (2012)	2020	2025	2030
Employed Population Growth₁ (in Compounded Annual Growth Rate)	--	6.10% (1.19%)	6.09% (1.19%)	6.09% (1.19%)
County Employment (Net Goods-producing Sectors)₂	415,496	441,734	466,555	492,748
Retail	44,766	47,593	50,267	53,089
Commercial	370,730	394,141	416,288	439,658
Total commercial space₃	111,149,711	118,168,714	124,808,659	131,815,334
Retail	42,406,105	45,084,012	47,617,300	50,290,503
5-year Net Growth (s.f.)	--	+2,399,467	+2,533,287	+2,673,204
Office	68,743,606	73,084,702	77,191,359	81,524,831
5-year Net Growth (s.f.)	--	+3,889,723	+4,106,657	+4,333,472
Sources: 1. Metropolitan Washington Council of Governments (MWCOC) ¹⁷ ; 2. Bureau of Labor Statistics, Quarterly Census of Employment and Wages ¹⁸ (annual average employment for 2012). Total employment excludes good-producing sector jobs that involve extensive field activities. 3. 2012 commercial space in the county is reported in "Montgomery County Snapshot (p.54)" published May 2012. Projected commercial space is estimated by applying square feet per employee and is based on 2012 data. Square footage per employee for the retail sector is 947.3 and 185.4 for other commercial uses. 5-year net growth data in the 2020 column reflect comparisons with the year 2015. NOTE: Numbers in <i>italics</i> represent Sage estimates.				

Employment growth is both a function of population growth and also attracts people to the county. Population growth in turn generates additional demand for housing. Exhibit 16 provides estimates of county population and housing permits issued by Montgomery County and Gaithersburg, respectively, over the next two decades. Note that population growth in the City of Gaithersburg is anticipated to be faster than countywide averages going forward.

¹⁷ Metropolitan Washington Council of Governments (MWCOC). (July 2013). *Round 8.2 Cooperative Forecasting: Employment, Population, and Households*. Retrieved from http://www.mwcog.org/store/item.asp?PUBLICATION_ID=466

¹⁸ Bureau of Labor Statistics. (n.d.) Data retrieved on August 1st, 2013, from <http://data.bls.gov/cgi-bin/dsrv/en>

Exhibit 16: Montgomery County and City of Gaithersburg Population Growth from 2010 to 2030 & Associated Estimated of Permits Granted

	2010	2015	2020	2025	2030
Montgomery County					
Population Growth¹ (Compounded Annual Growth Rate)	971,780	1,015,800 (0.89%)	1,065,600 (0.96%)	1,109,900 (0.82%)	1,154,200 (0.79%)
Gaithersburg					
Population Growth¹ (Compounded Annual Growth Rate)	59,933	66,705 (2.15%)	70,151 (1.01%)	73,354 (0.90%)	77,426 (1.09%)
Net Housing Permits Issued²	<i>Period:2000 – 2010</i>	<i>2010-2015</i>	<i>2015-2020</i>	<i>2020-2025</i>	<i>2025-2030</i>
	5,708*	5,281	2,687	2,498	3,175
Multi-family Units	3,372*	3,120	1,587	1,475	1,876
Single-family Units	2,336*	2,161	1,100	1,022	1,299
Source: 1. Metropolitan Washington Council of Government (Round 8.2); 2. Maryland Department of Planning ¹⁹ *Permits issued between 2000 and 2010. NOTE: Numbers in <i>Italic</i> are estimated by Sage. For the estimation of employment growth by retail and commercial, Sage applied the growth rates weighted by the proportion of employment level as of 2012.					

- Residential Development

Exhibit 17 reflects land area potentially available for residential development in the Corridor. The study team concludes that there are nearly 4.4 million square feet of land area available to support residential development, which translates into almost precisely 100 acres.

Exhibit 17: Land Area Available for Future Corridor Residential Development in Square Feet

	Northern	Central Core	Southern
<i>MXD (Mixed Use Development)</i>	855,133	2,629,666	--
<i>RA (Low Density Residential)</i>	--	--	204,996
<i>R20 (Medium Density Residential)</i>	--	12,875	--
<i>R-H (High Density Residential)</i>	--	47,418	--
<i>CD (Corridor Development)</i>	--	77,137	299,473
<i>R90 (Medium Density Residential with an option for Cluster Development)</i>	--	11,359	--
<i>N/A *</i>	--	--	231,087
Subtotal:	855,133	2,778,455	735,556
TOTAL Available Land:			4,369,144

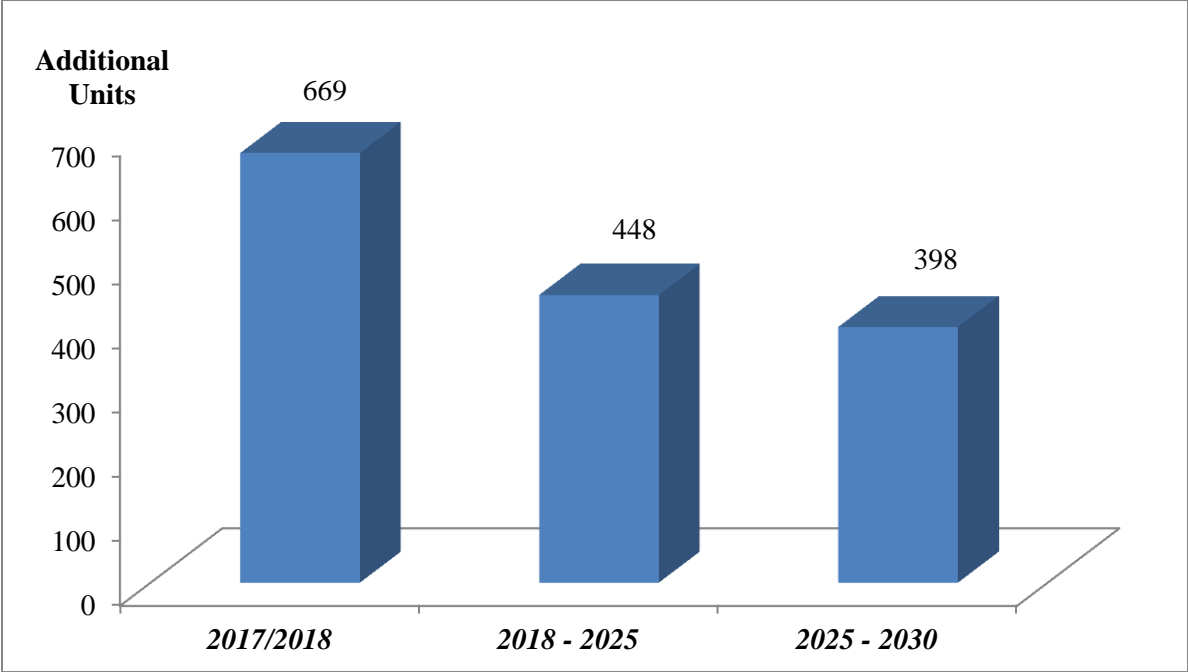
Source: Dewberry Consulting *Parcel located outside of the City of Gaithersburg boundary, but within the Corridor study area. This parcel is currently wooded.

Based on a combination of expected countywide population growth, the availability of residentially developable acreage and current zoning, the study team estimates that the City will issue slightly more than 1,500 (1,515) residential permits between now and the year 2030. This total includes the 669

¹⁹ Maryland Department of Planning. (n.d.) Data retrieved from <http://www.mdp.state.md.us/msdc/newhh/annual/2012/annual12.shtml> (Table 1A and 2A)

rental units proposed at the Spectrum project. Exhibit 18 below provides a breakdown of anticipated permitting pace.

Exhibit 18: Projection of Residential Units to be Developed in Corridor’s Vicinity, 2018, 2025, 2030



Source: City of Gaithersburg , Sage

Given the current aesthetic of the Corridor and emerging demographics, the study team believes that developers will generally view the Corridor as an opportunity to situate more multi-family rental units. The study team also suspects that these units will tend to be smaller and will be predominately oriented toward studio and one-bedroom product. This is not to suggest that no market for owner-occupied markets exist. There are undoubtedly opportunities for additional condominiums and townhomes, but the development community is more likely to calculate higher internal rates of return for rental product. Again, this has to do with the nature of the Corridor’s demographics relative to other parts of Gaithersburg or Montgomery County, which appear to be more closely associated with demographic characteristics consistent with expanding homeownership.

The 2010 Census indicates that homeownership in an around the Corridor stands at 35 percent while citywide more than half of households (56%) own their homes. The past decade has actually been associated with a rising proportion of homeownership in the Corridor, but much of this relates to the period of the housing boom when families with relatively low incomes could qualify for mortgages. With lending standards far more disciple today, it is unlikely that a substantial fraction of current residents could easily qualify for mortgages.

The study team understands that the key to development is location, and the Corridor presents residents with innumerable labor market opportunities, particularly with respect to those residents with automobiles. The study team is confident that if key options that are presented in this report are

implemented with some degree of fidelity, developers will be induced to provide additional housing stock that encompasses a higher degree of homeownership as well as price points consistent with higher incomes. The study team believes that this must be the approach since the Corridor would benefit from a better mix of income in order to attract higher quality retail and other amenities. In other words, the study team believes that the Corridor should be upscaled, but that the current environment primarily invites relatively greater developer interest in smaller multi-family unit dwellings.

More recent residential development around the Corridor confirms the notion that the market for multi-family units is more vibrant. The Spectrum project on Watkins Street is a garden apartment complex in which all 699 units are designated to be multi-family garden apartments.

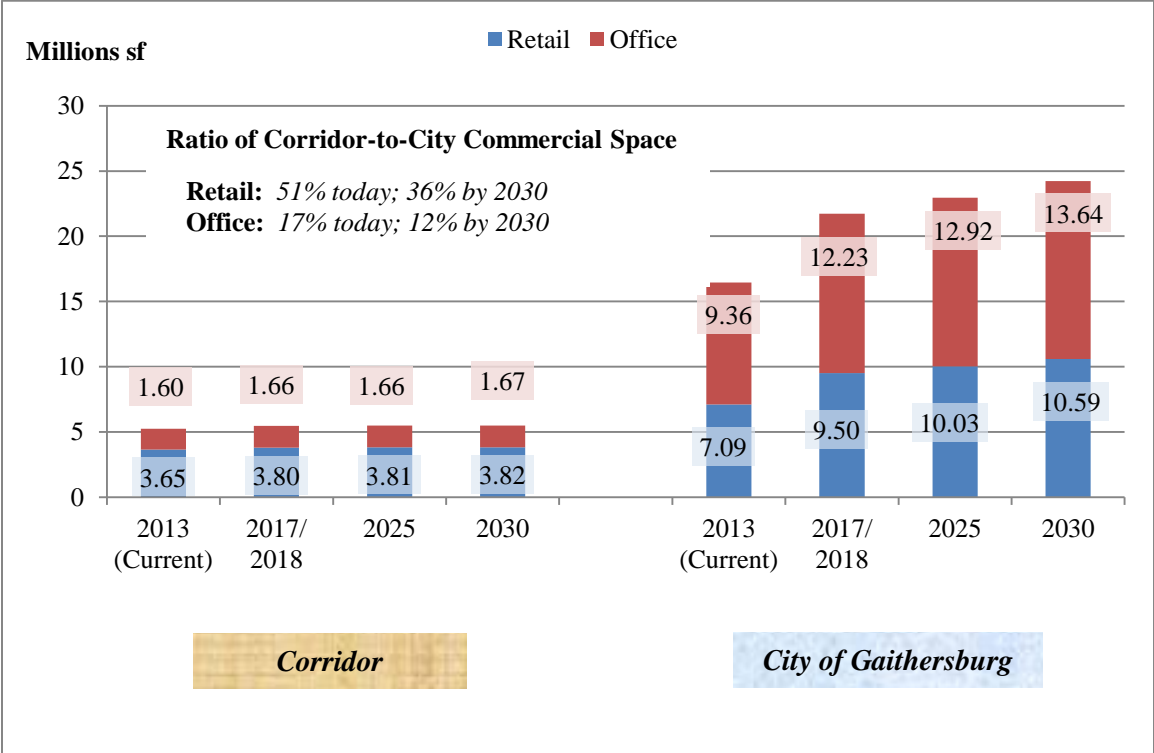
- Commercial Development

Growth in population regionally and locally will produce new opportunities for retailers. Based on available information, retail square footage will expand briskly in Gaithersburg over the next several years. Specifically, it is estimated that city retail space will expand significantly over the next several years, from roughly 7.1 million square feet to more than 9.5 million square feet by 2018. The amount of office space in the city will also expand, with about 12.2 million square feet in place by 2018 and nearly 13 million square feet in existence (12.9 million) by 2025. Of course, a combination of APFO restrictions and market realities may alter expected trajectories. The study team has presumed that a small fraction of planned square footage augmentation (5 percent) will not become operational before 2030. This parameter may ultimately prove too large or too small.

While citywide office/commercial development is projected to be brisk going forward, the amount of available retail and office space in the Corridor will hardly budge. This is due to a set of aforementioned constraints, including the lack of developable land, the relative lack of commercial developer interest, APFO restrictions, and competing development in and around Montgomery County.

The Corridor presently represents 51 percent of citywide retail space and 17 percent of citywide office space. By 2030, the study team estimates that these proportions will have declined to 36 percent and 12 percent, respectively. The Corridor's retail share will likely fall below 40 percent by as early as 2018.

Exhibit 19: Projections of Commercial Space Development, 2013, 2017, 2025, 2030



Source: CoStar, Dewberry

More than 70 percent of Corridor office space is categorized as Class B. Class A space represents the highest quality products available within the market. This space is often found in newer buildings and commands higher rents. The implication is that the Corridor's current market offers are likely to be bypassed by top tier renters. Exhibit 20 provides current and expected spatial breakdowns for Corridor office space.

Exhibit 20: Breakdown of Corridor Office Space by Type (A, B, & C), in square feet

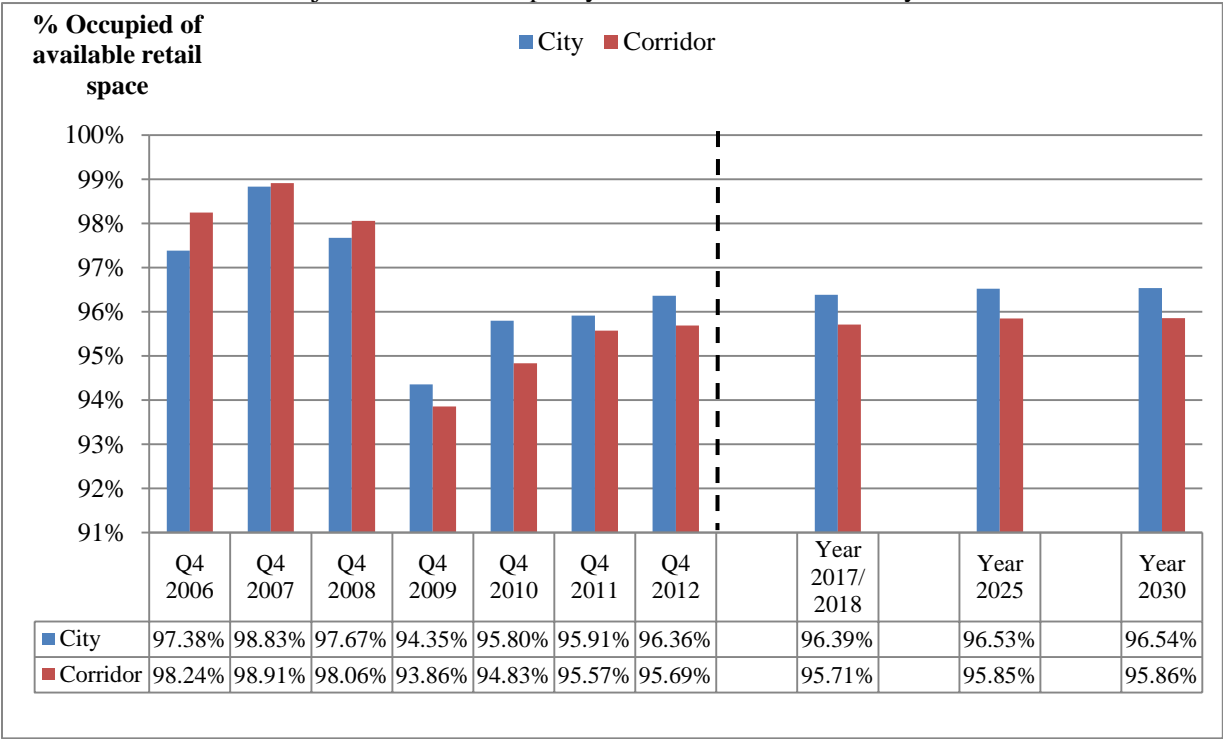
	2013 (Current)	2017/2018	2025	2030
Total Office Space:	1,595,261	1,660,616	1,664,850	1,669,014
<i>Class A</i>	341,201	354,515	356,085	357,142
<i>Class B</i>	1,134,347	1,181,889	1,182,997	1,186,553
<i>Class C</i>	119,713	124,212	125,768	125,319

Source: CoStar, Dewberry NOTE: Numbers in *Italics* are Sage estimates

In short, the Corridor is lagging behind the balance of the city. For now, the study team has presumed that Corridor occupancy rates will remain similar to citywide averages. That may prove optimistic. The figures above relate to square footage in place, which is distinct from occupied square footage. Corridor vacancy may rise faster as current users shift to other areas of the city or region to participate in more vibrant environments. Corridor property owners might respond by reducing rents to stabilize occupancy, which in turn would diminish the incentive to re-invest in properties and would also likely

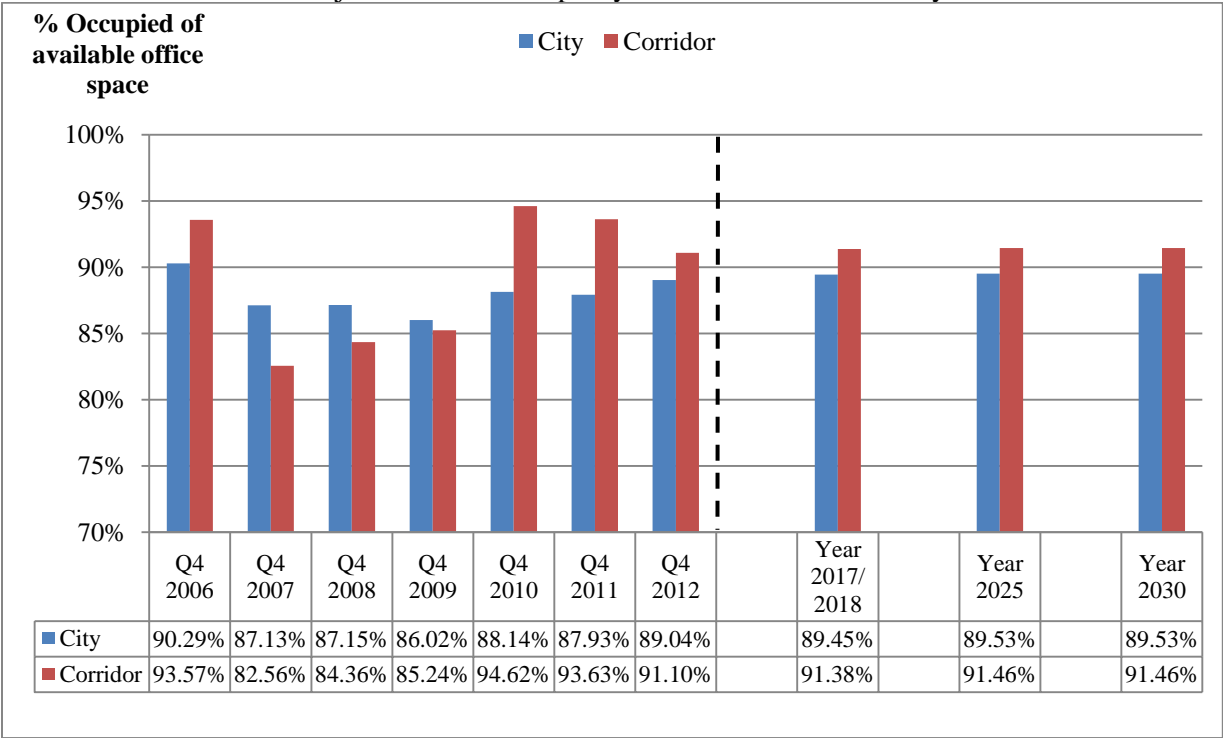
negatively impact the City’s fiscal situation. This dynamic would also further contribute to the Corridor’s eroding competitive position.

Exhibit 21: Historic & Projected Retail Occupancy Rate for Corridor and City



Source: CoStar (Data compiled by City of Gaithersburg); Forecast through 2030 by Sage.

Exhibit 22: Historical & Projected Office Occupancy Rate for Corridor and City



Source: CoStar (Data compiled by City of Gaithersburg); Forecast through 2030 by Sage.

Exhibits 21 and 22 provide data regarding historic and projected occupancy rates for the Corridor’s and the City’s retail and office space offerings. There is not much to say about these estimates. Forecasts are largely based upon the historic relationship between Gaithersburg citywide and Corridor vacancy rates. It is basically impossible to accurately predict long-term vacancy rates. One assumes that property owners will continue to invest in maintenance and alter rent levels in ways that promote for continued, sustained occupancy.

IV. Summary of Market Analysis

To remain competitive, the City of Gaithersburg will need to rethink its Frederick Avenue Corridor. This market study stands for the proposition that the Corridor will significantly lag the balance of the city and the county in terms of investment momentum. Existing office and retail space will continue to age while new commercial investment will be in relatively short supply despite ongoing employment growth in and around Gaithersburg. Residential development will be more apparent under the study team's baseline forecast, but much of the anticipated development will be rental in nature and will be tied directly to the Spectrum project. Once that project is completed, residential build-out in the Corridor will be relatively slower.

There are many constraints on the Corridor, including a relative dearth of available developable land, height/APFO restrictions, lack of high-end appeal, competition with other emerging commercial centers in and out of Gaithersburg and Montgomery County, and falling median household incomes. The Corridor presently represents 51 percent of citywide retail space and 17 percent of citywide office space. By 2030, the study team estimates that these proportions will have declined to 36 percent and 12 percent, respectively.

In the subsequent sections of the report, the study team presents both a retail gap analysis and a series of options to help support greater Corridor competitiveness. These options have been accompanied by both an assessment of what their adoption might accomplish and their associated fiscal impacts, or cost or implementation to the City of Gaithersburg.

The most important concept worth considering is "option value". In environmental economics, option value is often associated with the benefit of preserving a natural resource for current and future generations. That is not what is meant here. What the study means by option value in this context is an approach that seeks to improve the Corridor aesthetically and in other ways in the short-term in order to create conditions that will attract higher quality development in the mid- and long-terms.

This envisioned future development would be both commercial and residential in nature, with somewhat greater emphasis on Class A office space provision and owner-occupied residential product than is apparent in today's development environment. One of the other items to consider is the possible provision of Bus Rapid Transit within the Corridor, which will allow for denser, more impactful development than is currently possible given traffic-related constraints. If the City permits available acreage to be developed under current conditions, that option value will be lost.